

**CITY OF BUFFALO,  
NEW YORK**

*Basic Financial Statements, Required Supplementary  
Information, Supplemental Schedules and Federal  
Financial Assistance Schedules for the Year Ended  
June 30, 2012 and Independent Auditors' Reports*



**CITY OF BUFFALO, NEW YORK**

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Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Comptroller of  
the City of Buffalo, New York:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo, New York (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Buffalo Fiscal Stability Authority, which represents 5.6% and 0.3%, respectively, of the assets and revenues of the governmental activities, and 10.1% and 0.2%, respectively, of the assets and revenues of the governmental funds within the fund financial statements. We also did not audit the financial statements of the Buffalo Board of Education and the City of Buffalo Urban Renewal Agency, which are shown as discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Buffalo Fiscal Stability Authority, Buffalo Board of Education, and the City of Buffalo Urban Renewal Agency, is based solely on the reports of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 16 to the basic financial statements, the Solid Waste and Recycling Fund reported a net deficit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental schedules listed in the foregoing table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of the City's management, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules and the accompanying schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

The City's basic financial statements include the operations of the Buffalo Board of Education and the City of Buffalo Urban Renewal Agency, which expended \$107,817,329 and \$122,691,146 of federal awards, respectively, which are not included in the City's Schedule of Expenditures of Federal Awards for the year ended June 30, 2012. Our audit, as described in our report on compliance and internal control over compliance applicable to each major federal award program, did not include the operations of the Buffalo Board of Education and the City of Buffalo Urban Renewal Agency, as other auditors were engaged to perform such audits in accordance with OMB Circular A-133, as applicable.

 Duesch & Melch LLP

December 10, 2012

**CITY OF BUFFALO, NEW YORK**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2012**

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As management of the City of Buffalo, New York (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. This document should be read in conjunction with additional information that we have furnished in the City's financial statements which follow this narrative. All amounts are expressed in thousands of dollars, unless otherwise indicated.

**Financial Highlights**

- ◆ The assets of the City exceeded its liabilities at the close of the fiscal year ended June 30, 2012 by \$128,054 (net assets). This consists of \$321,308 invested in capital assets, net of related debt, \$51,799 restricted for specific purposes, and deficit unrestricted net assets of \$245,053.
- ◆ The City's total net assets decreased by \$40,900 for the year ended June 30, 2012. Net assets decreased \$42,978 for governmental activities and increased \$2,078 for business-type activities.
- ◆ As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$227,275.
- ◆ At the end of the current fiscal year, the committed, assigned and unassigned fund balance for the General Fund was \$77,714, or 16.6%, of total General Fund expenditures and transfers out. Committed fund balance for the City's Rainy Day Fund is \$35,740, or 7.7% of total General Fund expenditures and transfers out, assigned fund balance is \$29,787, or 6.4% of total General Fund expenditures and transfers out, and unassigned fund balance is \$12,187, or 2.6% of total General Fund expenditures and transfers out.
- ◆ During the year ended June 30, 2012, the City determined its hedging derivative met the criterion for an effective hedge and accordingly adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The effect of the resulting restatement of beginning business-type activities net assets is summarized in Note 2 of this report.
- ◆ The City's total general obligation bonded debt outstanding, excluding notes that have been refinanced but have not yet matured and bonds issued by the Buffalo Fiscal Stability Authority's ("BFSA"), is \$260,555 (\$243,655 net governmental activities general obligation bonds issued by the City and \$16,900 business-type activities general obligation bonds). The City issued \$53,805 of general obligation bonds and \$40,475 of refunding bonds during the year ended June 30, 2012.
- ◆ The total Buffalo Municipal Water Finance Authority revenue bonds outstanding within the Water System at the end of the current fiscal year were \$166,210.
- ◆ BFSA total bonded debt outstanding is \$91,235.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements present functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, streets and sanitation, economic assistance and opportunity, culture and recreation, and health and community services. The business-type activities of the City include a water utility, refuse collection services, and parking ramps.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate school district for which the City is financially accountable and the Buffalo Urban Renewal Agency, a public benefit corporation through which Federal urban renewal grants for the City are channeled. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages immediately following this section as the first two pages of the basic financial statements.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources*, available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains individual governmental funds, for which information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, which are considered major funds. Additionally, the general fund of the BFSA is reported as a major fund of the City. The City's special revenue and permanent funds, as well as the debt service fund of the BFSA, are considered to be non-major funds and the data from these funds are combined into a single, aggregated presentation.

The financial statements for governmental funds can be found in the fund financial statements, following the government-wide financial statements.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water system, parking, and refuse collection operations. The *internal service fund* is used to account for the central print shop. Because the print shop predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements. The City has elected to present its solid waste and recycling fund as a major fund on the Proprietary Funds Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water system, parking, and refuse collection operations. In addition, the internal service fund is presented in the proprietary fund financial statements.

The proprietary fund financial statements can be found in the Basic Financial Statements section of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found in the Basic Financial Statements section of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the Basic Financial Statement section of this report.

### **Government-wide Financial Analysis**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceed liabilities by \$128,054 at the close of the most recent fiscal year.

**Table 1—Condensed Statement of Net Assets (Deficit)—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 710,614	\$ 700,354	\$ 88,320	\$ 77,686	\$ 798,934	\$ 778,040
Capital assets	417,069	406,231	184,783	176,649	601,852	582,880
Total assets	1,127,683	1,106,585	273,103	254,335	1,400,786	1,360,920
Current and other liabilities	354,922	344,844	8,429	10,306	363,351	355,150
Long-term liabilities	703,181	649,183	206,200	191,530	909,381	840,713
Total liabilities	1,058,103	994,027	214,629	201,836	1,272,732	1,195,863
Net assets (deficit):						
Invested in capital assets, net of related debt	268,899	249,347	52,409	49,432	321,308	298,779
Restricted	51,799	59,740	-	-	51,799	59,740
Unrestricted	(251,118)	(196,529)	6,065	3,067	(245,053)	(193,462)
Total net assets	\$ 69,580	\$ 112,558	\$ 58,474	\$ 52,499	\$ 128,054	\$ 165,057

The largest portion of the City’s net assets reflects its investment in capital assets (such as land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net assets, 40.5% of total net assets, represents resources that are subject to external restrictions on how they may be used.

The remaining component of the City’s net assets, a deficit of \$245,053, represents unrestricted net assets which reflect liabilities not related to the City’s capital assets and are not expected to be repaid from current resources. Long-term liabilities are funded annually within the funds. The long-term liability associated with other postemployment benefits (“OPEB”) totals \$323,990, which is greater than this deficit. As the revenue recognition criteria for the future funding of this liability has not been met, no asset has been recorded to offset this liability.

Total net assets decreased \$40,900 as a result of current year activities. Significant changes from 2011 to 2012 in the Statement of Net Assets and reasons for such changes are:

- ◆ Current and other assets increased by \$20,894. The primary reason for the increase is the overall increase in cash and cash equivalents of \$15,591 and the addition of deferred outflows of resources of \$5,137. The cash increase is largely attributed to the increase in cash held in the capital projects fund due to timing of bonds sold and projects being undertaken.

- ◆ Capital assets increased by \$18,972. A significant portion of the increase was due to additions to infrastructure and building improvements.
- ◆ Current and other liabilities increased \$8,201 from June 30, 2011 to June 30, 2012. There are two major fluctuations that account for this difference. Firstly, accounts payable and accrued liabilities increased \$18,050 primarily due to the accrual for unpaid union salary increases. Secondly, the amount due to component units decreased by \$10,170 due to the budgeted use of fund balance by the Board of Education.
- ◆ Long-term liabilities increased by \$68,668, primarily due to a \$67,176 increase in postemployment benefit liabilities.

***Governmental activities.*** Governmental activities decreased the City's net assets by \$42,978; thereby, accounting for the majority of the decrease in the net assets of the City. Key elements of this decrease are as shown in Table 2 on the following page.

**Table 2—Changes in Net Assets—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>Year Ended June 30,</u>		<u>Year Ended June 30,</u>		<u>Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 25,813	\$ 24,169	\$ 67,644	\$ 62,674	\$ 93,457	\$ 86,843
Operating grants and contributions	10,608	12,910	-	-	10,608	12,910
Capital grants and contributions	19,077	17,753	-	-	19,077	17,753
General revenues:						
Property taxes	127,638	127,779	-	-	127,638	127,779
Other taxes	23,393	25,312	-	-	23,393	25,312
State aid	164,596	164,788	-	-	164,596	164,788
Intergovernmental	93,982	95,344	477	241	94,459	95,585
Grants and contributions	290	243	-	-	290	243
Unrestricted investment earnings	3,325	3,671	456	1,302	3,781	4,973
Miscellaneous	3,178	4,350	-	-	3,178	4,350
Total revenues	<u>471,900</u>	<u>476,319</u>	<u>68,577</u>	<u>64,217</u>	<u>540,477</u>	<u>540,536</u>
Expenses:						
General government support	69,127	112,279	-	-	69,127	112,279
Public safety	310,287	298,733	-	-	310,287	298,733
Streets and sanitation	30,717	33,951	-	-	30,717	33,951
Economic assist. and opportunity	9,265	8,505	-	-	9,265	8,505
Culture and recreation	15,428	14,511	-	-	15,428	14,511
Health and community services	2,997	5,685	-	-	2,997	5,685
Education	70,323	70,323	-	-	70,323	70,323
Interest and fiscal charges	14,337	16,458	-	-	14,337	16,458
Solid Waste and Recycling	-	-	24,890	23,759	24,890	23,759
Parking	-	-	2,111	2,656	2,111	2,656
Water System	-	-	31,896	32,514	31,896	32,514
Total expenses	<u>522,481</u>	<u>560,445</u>	<u>58,897</u>	<u>58,929</u>	<u>581,378</u>	<u>619,374</u>
Excess (deficiency) of revenues over (under) expenses	(50,581)	(84,126)	9,680	5,288	(40,901)	(78,838)
Transfers	7,603	6,179	(7,603)	(6,179)	-	-
Increase (decrease) in net assets	<u>(42,978)</u>	<u>(77,947)</u>	<u>2,077</u>	<u>(891)</u>	<u>(40,901)</u>	<u>(78,838)</u>
Net assets — beginning, as previously stated	112,558	190,505	52,499	53,390	165,057	243,895
Restatement	-	-	3,898	-	3,898	-
Net assets — beginning, as restated	<u>112,558</u>	<u>190,505</u>	<u>56,397</u>	<u>53,390</u>	<u>168,955</u>	<u>243,895</u>
Net assets — ending	<u>\$ 69,580</u>	<u>\$ 112,558</u>	<u>\$ 58,474</u>	<u>\$ 52,499</u>	<u>\$ 128,054</u>	<u>\$ 165,057</u>

The largest funding sources for the City's governmental activities, as a percent of total revenues, are state aid (34.9%), property taxes (27.0%) and intergovernmental (19.9%).

The largest expense categories for the City's governmental activities are public safety (59.4%), education (13.5%) and general government support (13.2%). The education category represents the City allocation to the Board.

Significant changes from 2011 to 2012 in revenues and expenses for the City include the following:

- ◆ Total revenues remained relatively consistent during the current year as compared to last year.
- ◆ General government support expenses decreased \$43,152 primarily due the effects of an OPEB liability adjustment made in 2011 that wasn't needed in 2012 and a 2012 adjustment for a decrease in the estimate of judgments and claims outstanding at June 30, 2012. Public safety expenses increased \$11,554 due to increases in fringe benefit costs.

**Business-type activities.** Business-type activities increased the City's net assets by \$2,078. Overall, revenues and expenses remained relatively consistent from 2011 to 2012. The overall increase in net assets is due to the following:

- ◆ The water system's net assets increased by \$4,429. This is largely attributable to a \$3,527 increase in charges for services as a result of a scheduled rate increase.
- ◆ The net assets of the parking fund increased \$142. Interest expense decreased by \$543 due to bond payoff and refunding. The transfer of excess revenues to the general fund increased \$1,047 over prior year.
- ◆ The solid waste and recycling fund recorded a decrease in net assets of \$2,493, which was the result of a decline in service charges as well as an increase in OPEB expenses.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In the fund financial statements, the City reports fund balance as nonspendable, restricted, committed, assigned and unassigned. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$227,275, a decrease of \$1,033 in comparison with the prior year. Unassigned fund balance is \$12,187, or 2.6% of total General Fund expenditures and transfers out. It should be noted that committed fund balance for the City's Rainy Day Fund is \$35,740, or 7.7% of total General Fund expenditures and transfers out. Additionally, the City's assigned fund balances total \$31,250, or 6.7% of total General Fund expenditures and transfers out. Together, unassigned, committed and assigned fund balance represents \$79,177, or 17.0% of General Fund expenditures and transfers out.

Nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance totaling \$22,928 consists of \$7,234 of real estate held for sale, \$30 for permanent fund principal, \$941 for prepaid items, and \$14,723 to cover the deficit in the solid waste fund.

Restricted fund balance in the amount of \$125,170 are amounts constrained to specific purposes and consists of \$76,917 to finance specific capital projects, \$2,556 for future capital outlay, \$1,611 for federal and state programs, \$28,015 to pay debt service, \$110 for compliance with the permanent fund, \$14,646 for state mandated initiatives, and \$1,315 for emergency medical services.

Commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City's highest level of decision-making authority. \$35,740 of fund balance is committed for the City's "Rainy Day" fund. Assigned fund balance in the amount of \$31,250 consists of \$4,217 to liquidate contracts and purchase orders, \$13,600 for judgments and claims, \$11,523 for the subsequent year's budget, \$448 for motor vehicle self-insurance, and \$1,462 in funds held by the BFSA. These assignments indicate management's intention to utilize these funds for the stated purposes. Unassigned fund balance totals \$12,187.

**General fund.** The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$12,187, while total fund balance reached \$113,631. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balances represent 2.8% of total fund expenditures (excluding other financing uses), while total fund balance represents 26.5% of that same amount. Together, unassigned, committed and assigned fund balance represents \$77,714 or 16.7% of General Fund expenditures and transfers out. The fund balance of the City's General Fund decreased by \$16,319 during the current fiscal year due to a budgeted use of fund balance.

**Debt service fund.** The Debt Service Fund has a total fund balance of \$3,504, which is reserved solely for the purpose of payment of debt service. The net decrease in fund balance during the current year in the Debt Service Fund of \$625 is due to the use of \$492 of fund balance as well as budgetary shortfalls in revenues.

**Capital projects fund.** The Capital Projects Fund accounts for the construction and reconstruction of general public improvements, excluding projects related to business-type activities, which are accounted for in the appropriate proprietary fund. At the end of the current fiscal year, the fund balance was \$76,917, of which \$21,403 was considered encumbered for contracts underway and \$55,514 was restricted for future projects. The increase in fund balance of \$21,223 is the result of proceeds from bonds issued in 2012.

**BFSA special revenue fund.** The BFSA special revenue fund is used to account for the general fund of the BFSA and, therefore, is their chief operating fund. Total fund balance at the end of the current fiscal year was \$16,125. Of this amount, \$14,646 is restricted by enabling legislation for state aid received on behalf of the City, \$17 is nonspendable for prepaid items and \$1,462 represents BFSA's assigned fund balance for operations.

**Other governmental funds.** Other governmental funds consist of the special revenue fund, the BFSA debt service fund, and the permanent fund. The special revenue fund is used to account for programs and projects primarily funded by grants from the federal and state governments. At the end of the current fiscal year, fund balance of the special revenue fund was \$1,611. This balance is restricted for use in accordance with federal and state grant regulations. The fund balance of the special revenue fund decreased by \$559 over the prior year, and is attributed to the expenditures incurred in the current year for revenues that were received and recorded in prior years. The BFSA debt service fund has a total fund balance of \$15,346, which is restricted to pay debt service. The fund balance of the BFSA debt service fund decreased by \$1,144 as a result of debt service payments. The permanent fund is used to report resources that are legally restricted to the extent that only earnings and not principal may be used for the

purposes for which they were established. The balance at the end of the current fiscal year was \$140. The increase of \$1 was the result of investment income.

**Enterprise funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The net assets of the enterprise funds at the end of the current fiscal year totaled \$58,474. The balance includes \$46,314 for parking, \$34,916 for the water system, and a deficit balance of \$22,756 for solid waste and recycling. The underlying reasons for any changes were described under the heading Business-type activities.

**Internal service fund.** The internal service fund is used to account for the central print shop. The total net assets at the end of the fiscal year were \$211. This represents an increase of \$8, which is primarily from the excess of charges over cost.

### **Budgetary Highlights**

The City annually adopts an operating budget for the general fund as well as the debt service and enterprise funds. The City also adopts a capital improvement budget that determines what multi-year projects will be financed by the sale of bonds or the acquisition of capital grants. These projects are accounted for in the capital projects fund. The multi-year projects of the special revenue fund are established for specific projects as grant funds become available.

After adjustments for the prior year's encumbrances of \$4,865, the City's 2011-12 general fund operating budget was increased during the year by approximately \$1,800 for additional renovations of the City Court cell block facility. Actual revenues were \$721 greater than the final budget, mostly related to a positive variance in sales tax of \$3,459 offset by negative variances in fines of \$1,700 and state aid of \$1,227. Actual expenditures were \$1,325 more than the final budget. Major positive variances include a total of \$7,871 in salaries, \$2,493 in services and \$1,631 in utilities over multiple functions. The negative variance in fringe benefits of \$15,219 is primarily the result of estimating retroactive wage payments attributable to 2011-12 for unsettled union contracts.

### **Capital Assets and Debt Administration**

**Capital Assets.** In accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the City has recorded depreciation expense associated with all of its capital assets, including infrastructure. The City's capital assets for its governmental and business-type activities as of June 30, 2012, amounted to \$601,852 (net of accumulated depreciation). These capital assets include land, buildings, improvements other than buildings, machinery and equipment, infrastructure and construction in progress.

**Table 3—Capital Assets—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>	
	2012	2011	2012	2011	2012	2011
Land	\$ 12,577	\$ 12,577	\$ 3,362	\$ 3,362	\$ 15,939	\$ 15,939
Buildings and improvements	173,221	169,356	121,642	115,499	294,863	284,855
Improvements other than buildings	13,134	14,129	178	135	13,312	14,264
Machinery and equipment	18,454	17,570	3,687	1,642	22,141	19,212
Infrastructure	195,676	191,578	55,048	55,070	250,724	246,648
Construction in progress	4,007	1,021	866	941	4,873	1,962
Total	<u>\$ 417,069</u>	<u>\$ 406,231</u>	<u>\$ 184,783</u>	<u>\$ 176,649</u>	<u>\$ 601,852</u>	<u>\$ 582,880</u>

Significant changes from 2011 to 2012 in capital assets include:

- ◆ Buildings and improvements increased \$10,008 due to the upgrade of high service pumps at the Colonel Ward Pumping Station and the rehab of low lift pumping equipment at the Colonel Ward Filtration Plant. The City also received a Federal grant from the Department of Energy which covered energy efficient improvements at various community centers.
- ◆ Infrastructure increased \$4,076 due to completion of various road projects.
- ◆ Construction in progress increased \$2,911 due mainly to a new splash pad at Martin Luther King Jr. Park, which was still under construction as of June 30, 2012.

Additional information on the City's capital assets can be found in Note 6 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding for governmental activities of \$243,655, excluding bonds issued by BFSA. This entire amount is backed by the full faith and credit of the City. The City issued \$53,805 of general obligation bonds for capital projects during the year. The City also issued \$40,475 of refunding bonds during the year.

The BFSA's total bonded debt outstanding at the end of the current fiscal year is \$91,235.

The bonds outstanding for business-type activities at June 30, 2012 consisted of \$16,900 in general obligation bonds issued by the City and \$166,210 of revenue bonds issued by the Water Authority reported within the water system. The City's issued \$10,665 of refunding bonds within the parking fund during the year. The Water Authority issued \$17,150 of revenue bonds and \$5,295 of New York State Environmental Facilities Corporation bonds during the year.

**Table 4—Outstanding Debt—Primary Government (000s omitted)**

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 334,890	\$ 321,998	\$ 16,900	\$ 19,689	\$ 351,790	\$ 341,687
Revenue bonds	-	-	166,210	155,565	166,210	155,565
<b>Total</b>	<b>\$ 334,890</b>	<b>\$ 321,998</b>	<b>\$ 183,110</b>	<b>\$ 175,254</b>	<b>\$ 518,000</b>	<b>\$ 497,252</b>

The New York State Constitution restricts the annual real property tax levy for operating expenses to two percent of average full value of taxable City property over the last five years. This limitation does not apply to taxes for debt service. The Constitution also provides that the City may not contract indebtedness in an amount greater than 9% of the average full value of taxable real property for the most recent five years. Water debt, self-sustaining debt and revenue anticipation notes are excluded from the debt limit. This limit as of fiscal year end was \$588,627. The City had a debt-contracting margin of \$317,062 on July 1, 2012.

Additional information on the City's long-term debt can be found in Note 9 of this report.

### **Next Year's Budget**

The City considered current year operational expenses and estimated increases based on economic factors when establishing the fiscal year 2013 budget. The total budgeted appropriations for the City's general fund operations are \$377,167. This budget reflects an increase of 5.8% to cover anticipated increased costs. This budget was approved by the BFSAs.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Buffalo, Office of the Comptroller, 1225 City Hall, Buffalo, New York 14202, Buffalo Board of Education, Finance, 708 City Hall, Buffalo, New York 14202 and Buffalo Urban Renewal Agency, 214 City Hall, Buffalo, New York 14202.

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# BASIC FINANCIAL STATEMENTS



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**CITY OF BUFFALO, NEW YORK**  
**Statement of Net Assets (Deficits)**  
**June 30, 2012**

	<u>Primary Government</u>			<u>Component Units</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>BOE</u>	<u>BURA</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 346,429,962	\$40,293,016	\$ 386,722,978	\$ 287,279	\$ 2,687,624
Investments	17,063,812	-	17,063,812	-	-
Receivables (net of allowance for uncollectibles)	2,294,096	9,247,472	11,541,568	4,174,000	13,536,972
Due from other governments/agencies	51,861,669	848,997	52,710,666	81,556,288	531,164
Due from component units/primary government	115,416,820	-	115,416,820	239,781,854	328,386
Internal balances	15,344,691	(15,344,691)	-	-	-
Prepaid expenses and other assets	941,296	-	941,296	1,965,182	-
Deferred outflows of resources	-	5,137,442	5,137,442	-	-
Deferred financing costs	8,346,025	2,770,807	11,116,832	20,974,390	-
Real estate acquired for resale	7,233,609	-	7,233,609	-	704,857
Restricted assets:					
Cash and cash equivalents	145,682,026	45,366,920	191,048,946	185,657,720	-
Capital assets:					
Land and construction in progress	16,584,526	4,228,358	20,812,884	123,782,771	627,931
Other capital assets (net of accumulated depreciation)	<u>400,484,077</u>	<u>180,555,101</u>	<u>581,039,178</u>	<u>1,035,935,831</u>	<u>9,924,497</u>
Total assets	<u>1,127,682,609</u>	<u>273,103,422</u>	<u>1,400,786,031</u>	<u>1,694,115,315</u>	<u>28,341,431</u>
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	106,593,944	7,625,088	114,219,032	53,884,919	7,403,984
Due to component units/primary government	240,110,240	-	240,110,240	115,416,820	-
Due to other governments	191,193	-	191,193	31,546,318	311,636
Unearned revenue	8,026,370	803,823	8,830,193	5,180,875	2,825,721
Noncurrent liabilities:					
Due within one year	51,566,204	10,797,052	62,363,256	56,121,791	1,265,000
Due in more than one year	<u>651,614,475</u>	<u>195,403,184</u>	<u>847,017,659</u>	<u>1,697,931,430</u>	<u>16,770,310</u>
Total liabilities	<u>1,058,102,426</u>	<u>214,629,147</u>	<u>1,272,731,573</u>	<u>1,960,082,153</u>	<u>28,576,651</u>
<b>NET ASSETS (DEFICITS)</b>					
Invested in capital assets, net of related debt	268,899,463	52,408,760	321,308,223	151,649,856	10,304,867
Restricted for:					
Capital outlay	2,555,946	-	2,555,946	950,080	-
Debt service	24,297,521	-	24,297,521	76,324,077	-
Grants	1,610,671	-	1,610,671	-	-
State mandated initiatives	14,645,657	-	14,645,657	-	-
Real estate held for sale	7,233,607	-	7,233,607	-	-
Judgments and claims	-	-	-	23,000,000	-
Unemployment insurance	-	-	-	3,156,044	-
Joint Schools Construction Board projects	-	-	-	106,256,723	-
Other purposes	1,315,437	-	1,315,437	542,309	-
Perpetual care:					
Expendable	109,685	-	109,685	-	-
Unexpendable	30,000	-	30,000	-	-
Stabilization	-	-	-	8,103,160	-
Unrestricted	<u>(251,117,804)</u>	<u>6,065,515</u>	<u>(245,052,289)</u>	<u>(635,949,087)</u>	<u>(10,540,087)</u>
Total net assets (deficits)	<u>\$ 69,580,183</u>	<u>\$58,474,275</u>	<u>\$ 128,054,458</u>	<u>\$(265,966,838)</u>	<u>\$ (235,220)</u>

The notes to the financial statements are an integral part of this statement.

# CITY OF BUFFALO, NEW YORK

## Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets (Deficit)				
		Charges for Services	Operating	Capital	Primary Government		Component Unit		
			Grants and Contributions	Grants and Contributions	Governmental Activities	Business-type Activities	Total	BOE	BURA
<b>Primary government:</b>									
Governmental activities:									
General government support	\$ 69,127,406	\$ 10,351,847	\$ 2,960,664	\$ 4,809,809	\$ (51,005,086)	\$ -	\$ (51,005,086)	\$ -	\$ -
Public safety	310,287,245	10,338,793	6,523,040	174,286	(293,251,126)	-	(293,251,126)	-	-
Streets and sanitation	30,716,657	954,615	-	7,791,446	(21,970,596)	-	(21,970,596)	-	-
Economic assistance and opportunity	9,265,617	3,875,858	792,518	5,209,015	611,774	-	611,774	-	-
Culture and recreation	15,427,690	135,011	75,000	1,092,576	(14,125,103)	-	(14,125,103)	-	-
Home and community services	2,996,844	156,822	256,818	-	(2,583,204)	-	(2,583,204)	-	-
Education	70,322,758	-	-	-	(70,322,758)	-	(70,322,758)	-	-
Interest and fiscal charges	14,336,716	-	-	-	(14,336,716)	-	(14,336,716)	-	-
Total governmental activities	<u>522,480,933</u>	<u>25,812,946</u>	<u>10,608,040</u>	<u>19,077,132</u>	<u>(466,982,815)</u>	<u>-</u>	<u>(466,982,815)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Solid Waste and Recycling	24,889,969	19,681,213	-	-	-	(5,208,756)	(5,208,756)	-	-
Parking	2,110,876	7,639,432	-	-	-	5,528,556	5,528,556	-	-
Water System	31,896,420	40,323,766	-	-	-	8,427,346	8,427,346	-	-
Total business-type activities	<u>58,897,265</u>	<u>67,644,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,747,146</u>	<u>8,747,146</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 581,378,198</u>	<u>\$ 93,457,357</u>	<u>\$ 10,608,040</u>	<u>\$ 19,077,132</u>	<u>(466,982,815)</u>	<u>8,747,146</u>	<u>(458,235,669)</u>	<u>-</u>	<u>-</u>
<b>Component Units:</b>									
BOE	\$ 1,009,072,601	\$ 3,208,242	\$ 144,313,124	\$ -				(861,551,235)	-
BURA	54,073,113	-	50,371,868	-				-	(3,701,245)
Total component units	<u>\$ 1,063,145,714</u>	<u>\$ 3,208,242</u>	<u>\$ 194,684,992</u>	<u>\$ -</u>				<u>(861,551,235)</u>	<u>(3,701,245)</u>
General revenues:									
Taxes:									
Property taxes					127,637,742	-	127,637,742	-	-
Other tax items					10,441,889	-	10,441,889	-	-
Gross utility tax					12,951,193	-	12,951,193	-	-
State aid (unrestricted)					164,595,610	-	164,595,610	593,333,193	-
Intergovernmental (unrestricted)					93,982,494	477,578	94,460,072	35,770,200	-
Grants and contributions not restricted to specific programs					290,197	-	290,197	-	-
Investment earnings					3,325,021	455,758	3,780,779	4,883,133	-
Contribution from City of Buffalo					-	-	-	70,322,758	-
Miscellaneous					3,177,759	-	3,177,759	16,249,024	-
Total general revenues					<u>416,401,905</u>	<u>933,336</u>	<u>417,335,241</u>	<u>720,558,308</u>	<u>-</u>
Transfers					<u>7,602,851</u>	<u>(7,602,851)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets (deficit)					<u>(42,978,059)</u>	<u>2,077,631</u>	<u>(40,900,428)</u>	<u>(140,992,927)</u>	<u>(3,701,245)</u>
Net assets (deficit)—beginning, as previously stated					112,558,242	52,499,130	165,057,372	(124,973,911)	3,466,025
Restatement					-	3,897,514	3,897,514	-	-
Net assets (deficit)—beginning, as restated					<u>112,558,242</u>	<u>56,396,644</u>	<u>168,954,886</u>	<u>(124,973,911)</u>	<u>3,466,025</u>
Net assets (deficit)—ending					<u>\$ 69,580,183</u>	<u>\$ 58,474,275</u>	<u>\$ 128,054,458</u>	<u>\$ (265,966,838)</u>	<u>\$ (235,220)</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Balance Sheet—Governmental Funds**  
**June 30, 2012**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>BFSA Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 343,995,875	\$ -	\$ -	\$ 65,320	\$ 2,167,255	\$ 346,228,450
Investments	-	-	-	-	17,063,812	17,063,812
Receivables:						
Delinquent taxes and assessments	18,151,624	-	-	-	-	18,151,624
Accounts receivable	9,902,022	-	104,263	-	-	10,006,285
Other receivables	50	1,014	-	-	3,137	4,201
Due from other agencies	2,571,333	-	-	-	-	2,571,333
Due from other funds	53,230,846	1,038,873	-	-	14,114	54,283,833
Due from other governments	13,053,483	-	3,685,621	31,264,574	1,286,658	49,290,336
Allowance for uncollectibles	(25,878,037)	-	-	-	-	(25,878,037)
Net receivables	71,031,321	1,039,887	3,789,884	31,264,574	1,303,909	108,429,575
Real estate acquired for resale	7,233,609	-	-	-	-	7,233,609
Prepaid items	924,027	-	-	17,269	-	941,296
Restricted cash and cash equivalents	22,839,546	2,464,302	104,044,427	14,645,657	1,688,094	145,682,026
Total assets	<u>\$ 446,024,378</u>	<u>\$ 3,504,189</u>	<u>\$ 107,834,311</u>	<u>\$ 45,992,820</u>	<u>\$ 22,223,070</u>	<u>\$ 625,578,768</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 7,251,720	\$ -	\$ 6,307,230	\$ 15,499	\$ 1,241,930	\$ 14,816,379
Due to other governments and agencies	124,070	-	26,272	-	-	150,342
Due to other funds	245,957	-	10,655,885	25,744,078	2,293,123	38,939,043
Due to component units	223,020,226	-	12,953,371	4,084,505	92,989	240,151,091
Accrued liabilities	76,266,429	-	-	23,311	1,486,652	77,776,392
Deferred revenues	16,187,418	-	-	-	-	16,187,418
Retentions payable	17,390	-	974,422	-	11,764	1,003,576
Accrued pension	9,279,673	-	-	-	-	9,279,673
Total liabilities	<u>332,392,883</u>	<u>-</u>	<u>30,917,180</u>	<u>29,867,393</u>	<u>5,126,458</u>	<u>398,303,914</u>
Fund balances:						
Nonspendable	22,881,090	-	-	17,269	30,000	22,928,359
Restricted	13,036,383	3,504,189	76,917,131	14,645,657	17,066,612	125,169,972
Committed	35,739,945	-	-	-	-	35,739,945
Assigned	29,787,422	-	-	1,462,501	-	31,249,923
Unassigned	12,186,655	-	-	-	-	12,186,655
Total fund balances	<u>113,631,495</u>	<u>3,504,189</u>	<u>76,917,131</u>	<u>16,125,427</u>	<u>17,096,612</u>	<u>227,274,854</u>
Total liabilities and fund balances	<u>\$ 446,024,378</u>	<u>\$ 3,504,189</u>	<u>\$ 107,834,311</u>	<u>\$ 45,992,820</u>	<u>\$ 22,223,070</u>	<u>\$ 625,578,768</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets (Deficits)—Governmental Activities**  
**June 30, 2012**

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Amounts reported for governmental activities in the statement of net assets are different because:

Fund balances—total governmental funds		\$227,274,854
City capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$758,484,225 and the accumulated depreciation is \$341,418,807.		417,065,418
Buffalo Fiscal Stability Authority capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds. The cost of these assets is \$62,718 and the accumulated depreciation is \$59,533.		3,185
To recognize interest accrual on long-term debt. Accrued interest for general obligation bonds is \$3,717,924 at year end.		(3,717,924)
Property taxes are not available to pay for current period expenditures and therefore are deferred in the funds.		8,161,048
Internal service funds are used by management to charge the costs of internal print services. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		211,436
Long-term liabilities applicable to the City's governmental funds are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consisted of:		
Bonds payable (net of of BFSFA mirror debt and amount due from Board)	(128,238,180)	
Notes payable	(1,311,833)	
Capital leases	(1,379,876)	
Deferred financing costs	6,956,816	
Unamortized premiums	(6,163,225)	
Compensated absences	(24,689,922)	
Workers' compensation	(7,651,378)	
Landfill post-closure monitoring	(1,150,000)	
Other postemployment benefits payable	(306,869,000)	
Judgments and claims	<u>(13,600,000)</u>	(484,096,598)
Long-term liabilities of the Buffalo Fiscal Stability Authority are not due and payable in the current period and, therefore, are not reported in the funds. These liabilities consisted of:		
Bonds payable	(91,235,000)	
Deferred financing costs	1,389,209	
Unamortized premiums	(5,104,182)	
Other postemployment benefits payable	<u>(371,263)</u>	<u>(95,321,236)</u>
Net assets of governmental activities		<u>\$ 69,580,183</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds**  
**Year Ended June 30, 2012**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>BFSA Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Property taxes, assessments, and other tax items	\$ 138,305,156	\$ -	\$ -	\$ -	\$ -	\$ 138,305,156
Utility and other nonproperty tax items	12,951,193	-	-	-	-	12,951,193
Intergovernmental	256,772,386	17,303,519	18,475,370	544,619	5,942,839	299,038,733
Investment interest	1,638,099	325,565	-	-	648,195	2,611,859
License, permit, rentals, fines, and other service charges	21,185,489	66,366	-	-	-	21,251,855
Miscellaneous	7,563,842	24,222	601,765	-	106,084	8,295,913
Total revenues	<u>438,416,165</u>	<u>17,719,672</u>	<u>19,077,135</u>	<u>544,619</u>	<u>6,697,118</u>	<u>482,454,709</u>
<b>EXPENDITURES</b>						
Current:						
General government support	55,743,708	-	12,019,273	652,028	1,412,104	69,827,113
Public safety	138,345,976	-	4,156,679	-	4,164,410	146,667,065
Streets and sanitation	10,811,457	-	16,619,793	-	63,726	27,494,976
Economic assistance and opportunity	1,230,916	-	5,054,618	-	1,192,030	7,477,564
Culture and recreation	6,696,503	-	5,932,242	-	4,130	12,632,875
Health and community services	1,834,049	-	-	-	11,641	1,845,690
Education	70,322,758	-	9,900,000	-	-	80,222,758
Fringe benefits	139,755,550	-	-	125,532	-	139,881,082
Other	3,271,707	-	-	-	-	3,271,707
Debt service:						
Principal	-	25,753,000	-	-	15,525,000	41,278,000
Interest and fiscal charges	866,735	10,320,174	-	-	4,547,645	15,734,554
Total expenditures	<u>428,879,359</u>	<u>36,073,174</u>	<u>53,682,605</u>	<u>777,560</u>	<u>26,920,686</u>	<u>546,333,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,536,806</u>	<u>(18,353,502)</u>	<u>(34,605,470)</u>	<u>(232,941)</u>	<u>(20,223,568)</u>	<u>(63,878,675)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	12,075,898	33,426,258	2,247,622	-	18,522,069	66,271,847
Transfers out	(37,932,030)	(14,907,754)	(2,453,050)	(3,376,162)	-	(58,668,996)
Proceeds of debt issuance	-	29,810,000	53,805,000	-	-	83,615,000
Premium on bonds	-	1,021,257	2,228,410	-	-	3,249,667
Payment to escrow agent	-	(31,621,343)	-	-	-	(31,621,343)
Total other financing sources (uses)	<u>(25,856,132)</u>	<u>17,728,418</u>	<u>55,827,982</u>	<u>(3,376,162)</u>	<u>18,522,069</u>	<u>62,846,175</u>
Net change in fund balances	(16,319,326)	(625,084)	21,222,512	(3,609,103)	(1,701,499)	(1,032,500)
Fund balances—beginning	129,950,821	4,129,273	55,694,619	19,734,530	18,798,111	228,307,354
Fund balances—ending	<u>\$ 113,631,495</u>	<u>\$ 3,504,189</u>	<u>\$ 76,917,131</u>	<u>\$ 16,125,427</u>	<u>\$ 17,096,612</u>	<u>\$ 227,274,854</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances of Governmental Funds to the Statement of Activities—Governmental Activities**  
**Year Ended June 30, 2012**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances—total governmental funds		\$ (1,032,500)
<p>The City's governmental funds report capital outlays as expenditures of \$37,313,685. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense of \$26,102,552. This is the amount by which capital outlays exceeded depreciation, net of related losses on disposal of capital assets of \$373,396.</p>		
	10,837,737	
<p>Buffalo Fiscal Stability Authority governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and disposals exceeded capital outlays.</p>		
	(113)	
<p>Revenues in the statement of activities that do not provide current financial resources and are not reported as revenues in the funds.</p>		
	(225,524)	
<p>Change in accrual of interest payable on notes and bonds payable.</p>		
	311,618	
<p>Change in net assets of the internal service fund reported in governmental activities.</p>		
	7,894	
<p>Bond proceeds are reported as a financing source in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>		
Bond principal payments	25,753,000	
Note principal payments	247,137	
Lease payments	856,804	
Contribution from Board	(1,198,739)	
Debt issued	(83,615,000)	
Refunded debt	29,445,000	
Premium	(3,249,667)	
Financing costs on issued debt	<u>2,664,752</u>	(29,096,713)
<p>The repayment of long-term debt by the Buffalo Fiscal Stability Authority consumes current financial resources of governmental funds. Bond issuance costs are capitalized and bond premiums deferred. The net effect of the reduction of long-term liabilities on the statement of net assets consists of following adjustments:</p>		
Bond principal payments	15,525,000	
Amortization of bond premiums	713,162	
Amortization of deferred financing costs	<u>(235,007)</u>	16,003,155
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenses include changes in:</p>		
Compensated absences	1,245,650	
Workers' compensation	725,597	
Judgments and claims	20,295,500	
Landfill post-closure monitoring	100,000	
Other postemployment benefits	(62,736,041)	
Amortization of bond premiums	696,410	
Amortization of deferred financing costs	<u>(110,729)</u>	<u>(39,783,613)</u>
Change in net assets of governmental activities		<u>\$ (42,978,059)</u>

The notes to the financial statements are an integral part of this statement.

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**CITY OF BUFFALO, NEW YORK**  
**Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances—Budget and Actual (Non-GAAP Budgetary Basis)—General Fund**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Budgetary Actual</u>	<u>Variance with Final Budget</u>
	<u>Adopted</u>	<u>Final</u>		
<b>REVENUES</b>				
Property taxes, assessments, and other tax items	\$138,492,010	\$138,492,010	\$138,305,156	\$ (186,854)
Utility and other nonproperty tax items	12,925,000	12,925,000	12,951,193	26,193
Charges for services	12,080,897	12,080,897	11,039,741	(1,041,156)
Investment interest	1,150,000	1,150,000	1,638,099	488,099
Federal aid	947,102	947,102	1,685,579	738,477
State aid	184,001,123	184,001,123	182,774,096	(1,227,027)
Local sources and other	68,853,669	68,853,669	72,312,711	3,459,042
Licenses and permits	3,600,506	3,600,506	3,337,611	(262,895)
Fines	8,508,300	8,508,300	6,808,137	(1,700,163)
Miscellaneous	7,136,419	7,136,419	7,563,842	427,423
Total revenues	<u>437,695,026</u>	<u>437,695,026</u>	<u>438,416,165</u>	<u>721,139</u>
<b>EXPENDITURES</b>				
Current:				
General government support:				
Legislative	4,610,066	4,552,152	4,241,947	310,205
Executive	1,587,408	1,593,386	1,304,005	289,381
Audit and control	2,904,835	2,925,535	2,602,645	322,890
Law	3,378,510	4,156,249	4,007,374	148,875
Assessment	1,956,280	1,959,662	1,669,640	290,022
Public works, parks and streets	6,152,085	7,163,377	6,468,202	695,175
Management information systems	3,334,647	3,413,508	3,118,580	294,928
Administration and finance	11,214,300	11,161,647	9,875,058	1,286,589
Human resources	6,561,561	6,753,141	5,989,685	763,456
Other	19,368,153	20,018,727	18,518,794	1,499,933
Public safety:				
Administration and finance	1,368,747	1,396,900	1,227,344	169,556
Police	78,745,142	79,154,906	76,530,671	2,624,235
Fire	54,217,849	54,638,274	54,155,484	482,790
Public works, parks and streets	1,857,468	1,858,318	1,310,418	547,900
Permit and inspection services	5,653,145	5,706,179	5,466,100	240,079
Streets and sanitation:				
Public works, parks and streets	12,607,142	13,592,044	11,528,141	2,063,903
Economic assistance and opportunity:				
Executive	1,536,100	2,080,902	1,568,457	512,445
Community services	215,877	215,877	125,872	90,005
Culture and recreation:				
Public works, parks and streets	4,944,000	4,956,980	4,877,959	79,021
Community services	1,897,232	2,038,793	1,694,037	344,756
Other	-	498,102	494,279	3,823
Health and community services:				
Public works, parks and streets	1,098,154	1,116,287	988,532	127,755
Community services	1,113,530	1,121,844	877,314	244,530
Other	-	1,900	1,900	-
Education	70,322,758	70,322,758	70,322,758	-
Fringe benefits	124,922,555	124,612,660	139,832,098	(15,219,438)
Other	4,435,000	3,857,682	3,432,163	425,519
Debt service	903,900	903,900	866,735	37,165
Total expenditures	<u>426,906,444</u>	<u>431,771,690</u>	<u>433,096,192</u>	<u>(1,324,502)</u>
Excess of revenues over expenditures	<u>10,788,582</u>	<u>5,923,336</u>	<u>5,319,973</u>	<u>(603,363)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	12,305,465	12,305,465	12,075,898	(229,567)
Transfers out	<u>(35,423,221)</u>	<u>(37,223,221)</u>	<u>(37,932,030)</u>	<u>(708,809)</u>
Total other financing sources (uses)	<u>(23,117,756)</u>	<u>(24,917,756)</u>	<u>(25,856,132)</u>	<u>(938,376)</u>
Net change in fund balances	(12,329,174)	(18,994,420)	(20,536,159)	(1,541,739)
Fund balances—beginning	<u>129,950,821</u>	<u>129,950,821</u>	<u>129,950,821</u>	<u>-</u>
Fund balances—ending	<u>\$117,621,647</u>	<u>\$110,956,401</u>	<u>\$109,414,662</u>	<u>\$ (1,541,739)</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Statement of Fund Net Assets (Deficit)**  
**Proprietary Funds**  
**June 30, 2012**

	<b>Business-type Activities—Enterprise Funds</b>				<b>Internal Service Funds</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Combined Total</b>	
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 439,989	\$ 7,439,504	\$ 32,413,523	\$ 40,293,016	\$ 201,512
Receivables:					
Accounts receivable	13,330,315	4,210,486	17,154,846	34,695,647	10,023
Other receivables	238,926	19	808,106	1,047,051	-
Due from other agencies	-	-	127,425	127,425	-
Due from other governments	-	-	721,572	721,572	-
Allowance for uncollectibles	(12,568,193)	-	(13,927,033)	(26,495,226)	-
Net receivables	<u>1,001,048</u>	<u>4,210,505</u>	<u>4,884,916</u>	<u>10,096,469</u>	<u>10,023</u>
Total current assets	<u>1,441,037</u>	<u>11,650,009</u>	<u>37,298,439</u>	<u>50,389,485</u>	<u>211,535</u>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	40,862	45,326,058	45,366,920	-
Capital assets not being depreciated:					
Land	1	3,217,093	145,116	3,362,210	-
Construction in progress	-	-	866,148	866,148	-
Capital assets being depreciated:					
Buildings and system	4,053,095	73,824,466	187,411,452	265,289,013	-
Improvements other than buildings	175,071	66,513	252,393	493,977	-
Machinery and equipment	8,083,688	109,762	554,249	8,747,699	-
Accumulated depreciation	(6,602,813)	(27,423,266)	(59,949,509)	(93,975,588)	-
Total capital assets being depreciated	5,709,041	46,577,475	128,268,585	180,555,101	-
Deferred outflows of resources	-	-	5,137,442	5,137,442	-
Deferred financing costs, net	-	63,962	2,706,845	2,770,807	-
Total noncurrent assets	<u>5,709,042</u>	<u>49,899,392</u>	<u>182,450,194</u>	<u>238,058,628</u>	<u>-</u>
Total assets	<u>\$ 7,150,079</u>	<u>\$ 61,549,401</u>	<u>\$ 219,748,633</u>	<u>\$ 288,448,113</u>	<u>\$ 211,535</u>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>					
Current liabilities:					
Accounts payable	\$ 909,106	\$ 42,825	\$ 897,197	\$ 1,849,128	-
Due to other funds	14,723,456	39,241	581,994	15,344,691	99
Other accrued liabilities	346,735	60,618	4,229,793	4,637,146	-
Retainages payable	-	-	648,116	648,116	-
Deferred revenues	220,416	318,638	264,769	803,823	-
Due to retirement systems	251,105	-	239,593	490,698	-
Capital lease	689,996	-	-	689,996	-
Accrued compensated absences	31,890	-	44,561	76,451	-
Accrued workers' compensation	668,084	-	210,768	878,852	-
General obligation and revenue bonds payable within one year	-	2,150,000	7,001,753	9,151,753	-
Total current liabilities	<u>17,840,788</u>	<u>2,611,322</u>	<u>14,118,544</u>	<u>34,570,654</u>	<u>99</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Statement of Fund Net Assets (Deficit)**  
**Proprietary Funds**  
**June 30, 2012**

	<b>Business-type Activities—Enterprise Funds</b>				<b>Internal Service Funds</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Combined Total</b>	
Noncurrent liabilities:					
Capital lease	1,656,501	-	-	1,656,501	-
Accrued compensated absences	771,856	-	761,413	1,533,269	-
Accrued workers' compensation	533,006	-	417,510	950,516	-
Accrued post employment benefits	9,104,000	27,000	7,619,000	16,750,000	-
Accrued derivative liability	-	-	5,137,442	5,137,442	-
General obligation bonds payable	-	12,596,532	1,290,981	13,887,513	-
Revenue bonds payable	-	-	155,487,943	155,487,943	-
Total noncurrent liabilities	<u>12,065,363</u>	<u>12,623,532</u>	<u>170,714,289</u>	<u>195,403,184</u>	<u>-</u>
Total liabilities	<u>29,906,151</u>	<u>15,234,854</u>	<u>184,832,833</u>	<u>229,973,838</u>	<u>99</u>
Net assets (deficit):					
Invested in capital assets, net of related debt	3,362,545	35,152,860	13,893,355	52,408,760	-
Unrestricted	<u>(26,118,617)</u>	<u>11,161,687</u>	<u>21,022,445</u>	<u>6,065,515</u>	<u>211,436</u>
Total net assets (deficit)	<u>(22,756,072)</u>	<u>46,314,547</u>	<u>34,915,800</u>	<u>58,474,275</u>	<u>211,436</u>
Total liabilities and net assets (deficit)	<u>\$ 7,150,079</u>	<u>\$ 61,549,401</u>	<u>\$219,748,633</u>	<u>\$ 288,448,113</u>	<u>\$ 211,535</u>

(concluded)

The notes to the financial statements are an integral part of this statement.

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**CITY OF BUFFALO, NEW YORK**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit)**  
**Proprietary Funds**  
**Year Ended June 30, 2012**

	<b>Business-type Activities—Enterprise Funds</b>			<b>Internal Service Funds</b>	
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>		<b>Combined Total</b>
Operating revenues:					
Charges for services	\$ 19,475,134	\$ -	\$ 40,212,867	\$ 59,688,001	\$ 56,415
Other	206,079	-	110,899	316,978	-
Rent	-	7,639,432	-	7,639,432	-
Total operating revenues	<u>19,681,213</u>	<u>7,639,432</u>	<u>40,323,766</u>	<u>67,644,411</u>	<u>56,415</u>
Operating expenses:					
Services and supplies	17,939,786	98,650	14,880,254	32,918,690	48,521
Depreciation	825,165	1,604,123	4,372,760	6,802,048	-
Fringe benefits	6,095,412	8,672	5,863,821	11,967,905	-
Other	-	-	53,569	53,569	-
Total operating expenses	<u>24,860,363</u>	<u>1,711,445</u>	<u>25,170,404</u>	<u>51,742,212</u>	<u>48,521</u>
Operating income (loss)	<u>(5,179,150)</u>	<u>5,927,987</u>	<u>15,153,362</u>	<u>15,902,199</u>	<u>7,894</u>
Nonoperating revenues (expenses):					
Interest earnings	656	26,932	428,170	455,758	-
Interest expense	(29,606)	(399,431)	(6,726,016)	(7,155,053)	-
Other	-	-	477,578	477,578	-
Total nonoperating revenues (expenses)	<u>(28,950)</u>	<u>(372,499)</u>	<u>(5,820,268)</u>	<u>(6,221,717)</u>	<u>-</u>
Income (loss) before transfers	(5,208,100)	5,555,488	9,333,094	9,680,482	7,894
Transfers in	3,387,919	-	-	3,387,919	-
Transfers out	<u>(673,048)</u>	<u>(5,413,276)</u>	<u>(4,904,446)</u>	<u>(10,990,770)</u>	<u>-</u>
Change in net assets (deficit)	<u>(2,493,229)</u>	<u>142,212</u>	<u>4,428,648</u>	<u>2,077,631</u>	<u>7,894</u>
Total net assets (deficit)—beginning, as previously stated	(20,262,843)	46,172,335	26,589,638	52,499,130	203,542
Restatement	-	-	3,897,514	3,897,514	-
Total net assets (deficit)—beginning, as restated	<u>(20,262,843)</u>	<u>46,172,335</u>	<u>30,487,152</u>	<u>56,396,644</u>	<u>203,542</u>
Total net assets (deficit)—ending	<u><u>\$(22,756,072)</u></u>	<u><u>\$ 46,314,547</u></u>	<u><u>\$ 34,915,800</u></u>	<u><u>\$ 58,474,275</u></u>	<u><u>\$ 211,436</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2012**

	<u>Business-type Activities—Enterprise Funds</u>				<b>Internal Service Funds</b>
	<b>Solid Waste and Recycling</b>	<b>Parking</b>	<b>Water System</b>	<b>Combined Total</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 20,069,299	\$ 7,300,002	\$ 40,488,075	\$ 67,857,376	\$ 64,583
Payments to suppliers for goods and services	(11,285,377)	(267,801)	(10,720,976)	(22,274,154)	(50,957)
Payments to employees for services	(10,952,907)	(7,672)	(9,432,481)	(20,393,060)	-
Net cash provided (used) by operating activities	<u>(2,168,985)</u>	<u>7,024,529</u>	<u>20,334,618</u>	<u>25,190,162</u>	<u>13,626</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	3,387,919	-	10,581,297	13,969,216	-
Transfers to other funds	(673,048)	(5,413,276)	(9,850,297)	(15,936,621)	-
Advances from other funds	(68,997)	(137,368)	(5,362,483)	(5,568,848)	(23)
Net cash provided (used) by noncapital financing activities	<u>2,645,874</u>	<u>(5,550,644)</u>	<u>(4,631,483)</u>	<u>(7,536,253)</u>	<u>(23)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Acquisition/construction of capital assets	(2,987,918)	(233,234)	(11,714,866)	(14,936,018)	-
Principal payments on bonds	-	(1,850,000)	(12,396,899)	(14,246,899)	-
Refunded debt	-	(11,030,000)	-	(11,030,000)	-
Payment to escrow agent	-	(180,042)	-	(180,042)	-
Proceeds from issuance of debt	-	10,665,000	22,445,000	33,110,000	-
Capital lease	2,346,497	-	-	2,346,497	-
Interest payments	(29,606)	(661,931)	(6,987,187)	(7,678,724)	-
Net cash provided (used) by capital and related financing activities	<u>(671,027)</u>	<u>(3,290,207)</u>	<u>(8,653,952)</u>	<u>(12,615,186)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received on short-term investments	660	26,945	396,759	424,364	-
Net cash provided by investing activities	<u>660</u>	<u>26,945</u>	<u>396,759</u>	<u>424,364</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(193,478)	(1,789,377)	7,445,942	5,463,087	13,603
Cash and cash equivalents—beginning	633,467	9,269,743	70,293,639	80,196,849	187,909
Cash and cash equivalents—ending	<u>\$ 439,989</u>	<u>\$ 7,480,366</u>	<u>\$ 77,739,581</u>	<u>\$ 85,659,936</u>	<u>\$ 201,512</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended June 30, 2012**

	<u>Business-type Activities—Enterprise Funds</u>				<u>Internal Service Funds</u>
	<u>Solid Waste and Recycling</u>	<u>Parking</u>	<u>Water System</u>	<u>Combined Total</u>	
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ (5,179,150)	\$ 5,927,987	\$ 15,153,362	\$ 15,902,199	\$ 7,894
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	825,165	1,604,123	4,372,760	6,802,048	-
Change in assets and liabilities:					
Receivables	346,977	(339,431)	(3,770,747)	(3,763,201)	8,168
Payables	(156,402)	(169,150)	2,632,906	2,307,354	(2,436)
Other accrued liabilities	12,765	-	(147,541)	(134,776)	-
Due to retirement systems	(34)	-	(19,587)	(19,621)	-
Deferred revenue	41,109	-	-	41,109	-
Accrued compensated absences	(252,579)	-	(23,443)	(276,022)	-
Accrued workers' compensation	(338,836)	-	229,908	(108,928)	-
Accrued other postemployment benefits	2,532,000	1,000	1,907,000	4,440,000	-
Total adjustments	<u>3,010,165</u>	<u>1,096,542</u>	<u>5,181,256</u>	<u>9,287,963</u>	<u>5,732</u>
Net cash provided (used) by operating activities	<u>\$ (2,168,985)</u>	<u>\$ 7,024,529</u>	<u>\$ 20,334,618</u>	<u>\$ 25,190,162</u>	<u>\$ 13,626</u>

(concluded)

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2012**

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	<b>Private Purpose Trust</b>	<b>Agency</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 23,907	\$ 1,674,494
Investments	32,912	-
Receivables	4,941	-
Total assets	\$ 61,760	\$ 1,674,494
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 207,598
Due to other governments	-	23,583
Amount held in custody for others	-	1,443,313
Total liabilities	-	1,674,494
<b>NET ASSETS</b>		
Unrestricted	61,760	-
Total net assets	61,760	-
Total liabilities and net assets	\$ 61,760	\$ 1,674,494

The notes to the financial statements are an integral part of this statement.

**CITY OF BUFFALO, NEW YORK**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2012**

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	<b>Private Purpose Trust</b>
<b>ADDITIONS</b>	
Investment earnings:	
Interest	\$ 548
Total additions	548
<b>DEDUCTIONS</b>	
Awards	2,247
Total deductions	2,247
 Change in net assets	 (1,699)
 Net assets - beginning	 63,459
Net assets - ending	\$ 61,760

The notes to the financial statements are an integral part of this statement.

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**CITY OF BUFFALO, NEW YORK**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

*Definition of the City for Financial Reporting Purposes* — The City of Buffalo, New York (the “City”) is a municipal entity governed by an elected Mayor, Comptroller, and a nine-member elected City Common Council (the “Council”). As required by accounting principles generally accepted in the United States of America (“GAAP”), these financial statements present the City (the “primary government”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship to the City.

*Blended Component Units* — The Buffalo Municipal Water Finance Authority (the “Authority”) and the Buffalo Water Board (the “Water Board”) are legally separate from the City; however, the Authority and the Water Board are reported as if they were part of the primary government (the “Water System”) because a majority of their Boards of Directors and/or management are City officials. In addition, the sole purpose of the Authority was to facilitate the financing of the City Water System’s acquisition by the Water Board and to finance construction improvements. The Water Board purchased the net assets of the Water System and is responsible for generating sufficient revenues to meet the debt service requirements of the City and Authority related to the Water System.

The Buffalo Fiscal Stability Authority (“BFSA”) is a corporate governmental agency and instrumentality of the State of New York (the “State”) constituting a public benefit corporation created by the Buffalo Fiscal Stability Authority Act (the “BFSA Act”), Chapter 122 of the State Laws of 2003, as amended from time to time. Nine directors, seven of which are appointed by the Governor, govern the BFSA. Its corporate purpose is to act as a temporary financial intermediary to the City. The BFSA is included as a blended component unit of the City’s primary government because their services are provided almost entirely to the City. The BFSA is fiscally dependent on the City, as they cannot issue debt without approval of the City, and cannot levy taxes or set rates that affect revenues. As such, the City is financially accountable for the BFSA.

The Water System and the BFSA are included as blended component units because exclusion would be misleading.

*Discretely Presented Component Units* — Financial data of the City’s component units that are not part of the primary government are reported in the component unit columns within the government-wide financial statements. These component units are reported in a separate column to emphasize that they are legally separate from the City. Such component units are not simply an extension of the primary government. The majority of the governing body of the Buffalo Urban Renewal Agency (“BURA”) is composed of City officials. BURA provides services to the general public. The Board of Education, City of Buffalo, New York (the “Board”) is governed by the Board of Education whose members are elected by the voters of the City in accordance with State statutes.

- ◆ BURA is a public benefit corporation formed by an act of the State Legislature in 1966. Its corporate purpose includes the general planning and operation of various urban renewal programs designed to prevent or eliminate blight and deterioration in the Buffalo urban area. Most of the funding for the various programs conducted by BURA is obtained from the federal government through the City, representing an ongoing relationship with both financial benefit and burden to the City. Additionally, the City has the ability to remove appointed members and to approve the BURA’s budget.

- ◆ The Board is a unit of local government created under the Constitution of the State. The Board's primary function is to provide education for pupils. Services, such as transportation of pupils, administration, finance, and plant maintenance, support the primary function of the Board. The Board is financially dependent upon the City and has no independent authority to issue debt or levy taxes, with the exception of the Special Revenue Program Bonds issued by the State of New York Municipal Bond Bank Agency (see Note 9). The Board's Joint Schools Construction Board ("JSCB") bonds payable represents bonds issued by the Erie County Industrial Development Agency (the "Issuer") to provide money to finance the renovation and/or equipping of certain public school facilities for use by the Board. The bonds are special limited obligations of the Issuer payable from amounts due from the Board under an installment sale agreement.

Complete financial statements of the individual component units can be obtained from their respective administrative offices as follows:

Buffalo Water Board  
502 City Hall  
Buffalo, NY 14202

Buffalo Municipal Water Finance Authority  
502 City Hall  
Buffalo, NY 14202

Buffalo Board of Education  
Office of the Chief Financial Officer  
708 City Hall  
Buffalo, NY 14202

City of Buffalo Urban Renewal Agency  
Financial Controls of Agencies  
214 City Hall  
Buffalo, NY 14202

Buffalo Fiscal Stability Authority  
Market Arcade Building, Suite 400  
617 Main Street  
Buffalo, NY 14202

*Related Organizations* — The Mayor also appoints the Board of Directors of the Buffalo Sewer Authority (the "Sewer Authority"), but the City's accountability for the Sewer Authority does not extend beyond making these appointments. The Sewer Authority has its own taxing and debt-raising powers. The Mayor also is responsible for appointing five of the seven members of the Board of Directors of the Buffalo Municipal Housing Authority (the "Housing Authority") and funds the operating deficits of the state-sponsored projects. The City's accountability does not extend beyond this point. The Housing Authority was created by the State Legislature as a separate and independent government body not under City control. A 1982 State Supreme Court ruling supported the City's conclusion regarding the independence of the Housing Authority.

*Buffalo Fiscal Stability Authority Act* — In May 2003, the State declared a state of fiscal crisis with respect to the City and enacted the BFSA Act, pursuant to Chapter 122 of the State Laws of 2003. Pursuant to the BFSA Act, during the year ended June 30, 2012 the State controlled the financial affairs of the City and certain "covered organizations" (as defined in the BFSA Act) affiliated with the City through the BFSA. The BFSA Act reserves to the City the ability to determine program and expenditure priorities within available financial resources.

The BFSA Act provides the BFSA different financial control and oversight powers depending upon whether the City's financial condition causes it to be in a control period; thereafter, an advisory period commences, and the BFSA Act permits a control period to be reestablished as determined should conditions warrant. The control period declared pursuant to the BFSA Act began on July 3, 2003, and continues until the date the BFSA determines that (1) for each of the three immediately preceding City fiscal years, the City has adopted and adhered to budgets covering all expenditures, other than capital items, the results of which did not show a deficit, without the use of any BFSA assistance, as provided for under the BFSA Act, when reported in accordance with GAAP and

(2) the City Comptroller and State Comptroller jointly certify that securities were sold by the City during the immediately preceding fiscal year in the general public market and there is a substantial likelihood that such securities can be sold by the City in the general public market from such date through the end of the next succeeding City fiscal year in amounts that will satisfy substantially all of the capital and cash flow requirements of the City during that period in accordance with the financial plan then in existence. An advisory period shall continue after such BFSA determinations until June 30, 2037, unless another control period is imposed.

## **B. Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including statement of net assets, statement of activities, and fund financial statements, which provide a more detailed level of financial information.

*Government-Wide Financial Statements* — The statement of net assets and the statement of activities display information on all nonfiduciary activities of the primary government and its component units. The activity of the internal service fund is eliminated to avoid “doubling up” of revenues and expenses. It is the City's policy to record transactions between funds as operating transfers. Therefore as a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

The statements distinguish between those activities of the City that are governmental, which are normally supported by taxes and intergovernmental revenues, and those that are considered business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of net assets presents the financial condition of the governmental and business-type activities for the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient for the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

*Fund Financial Statements* — During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of governmental and enterprise fund financial statements are on major funds. Each major fund is presented in a separate column. Nonmajor funds, where applicable, are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation* — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. BFSA special revenue fund nonexchange transactions, in which the BFSA receives value directly without giving equal value in exchange, include State aid and sales taxes and are recognized in the fiscal year for which stated aid and taxes are earned or designated.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Significant revenues considered to be susceptible to accrual in addition to general property taxes include the State Revenue Sharing and Assistance, sales taxes, and various categorical grants. Long-term historical payment patterns of the State Revenue Sharing and Assistance are considered in determining whether such payments are susceptible to accrual.

The City reports the following major governmental funds:

**General Fund** — The general fund is used to account for all financial resources of the primary government, except those required to be accounted for in another fund. The majority of current operations are financed by this fund. Transfers to other funds and agencies are made from this fund. Monies from other funds may be received, unless prohibited by the purpose and object of such funds.

**Debt Service Fund** — The debt service fund was established to receive and account for resources restricted for the payment of interest and principal on City and Board general improvement bonds, notes, and capital leases. The City has elected to always report the debt service fund as a major fund to enhance consistency even though it did not meet the criteria for mandatory reporting in the current year.

**Capital Projects Fund** — The capital projects fund is used to account for financial resources, such as proceeds from the sale of bonds, bond anticipation notes, capital notes, transfers from governmental funds, and federal and state grants, all provided for the specific purpose of constructing, reconstructing, or acquiring permanent or semipermanent capital improvements. Capital improvements intended for use of any of the Enterprise Funds are not included in the capital projects funds.

**BFSA Special Revenue Fund** — This fund represents the general fund of the BFSA and is used to account for all of their financial resources, except those required to be accounted for in another fund. This fund finances the operations of the BFSA, whereby they intercept state aid and sales tax from the City and transfer to the debt service account to pay debt issued on behalf of the City. The City has elected to report the BFSA special revenue fund as a major fund to enhance consistency even though it did not meet the criteria for mandatory reporting in the current year.

The City reports the following major proprietary funds:

Solid Waste and Recycling Fund — The solid waste and recycling fund is used to account for the City's solid waste removal system.

Parking Fund — The parking fund is used to account for public parking facilities operated by the City.

Water System — This fund accounts for the City's water treatment and distribution system and is responsible for water delivery to the residents of the City.

Additionally, the City reports the following fund types:

Internal Service Fund — The internal service fund accounts for operations in which amounts expended for the print shop are reimbursed by charges to the operations of other funds.

Other Governmental Fund — The other governmental fund includes the special revenue fund, the BFSAs debt service fund, and permanent fund:

Special Revenue Fund — The special revenue fund is used to account for the proceeds of specific federal and state grants that are legally restricted to expenditures for specified purposes.

BFSA Debt Service Fund — This fund accounts for the state aid and sales tax resources that the BFSAs intercepts from the City to pay principal and interest on general obligations bonds issued by the BFSAs on behalf of the City.

Permanent Fund — The permanent fund is used to account for assets held by the City in a trustee capacity that are legally restricted to the extent that only earnings, and not principal, may be used for purposes stipulated in the bequests and trust agreements.

Fiduciary Funds — These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. These include private-purpose trust and agency funds. Activities reported in the fiduciary funds include monies held in trust for prisoners, deposits that are to be returned, and payroll withholding due other entities.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board ("GASB"). Governments also have the option of following subsequent private sector guidance for their business-type and enterprise funds, subject to the same limitation. The government has elected not to follow subsequent private sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for the proprietary funds are as follows: refuse collection charges for the solid waste and recycling fund, parking fees for the parking fund and sale of water for the water system. Operating expenses for the enterprise funds, and the internal service fund, include the cost of sales and

services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first and then unrestricted resources as they are needed.

*Accounting for Property Taxes and Special Assessments* — Real property taxes are levied as of July 1, on which date they become liens on real property. The first half may be paid on or before July 31 without interest and the second half on or before December 31 without interest. Interest on delinquent property taxes is charged at the rate of 18% per annum. The lien date is June 1 of the year following the levy of the taxes.

The City is permitted by the Constitution of the State to levy taxes up to 2% of the five-year average full-assessed valuation for general governmental services other than the payment of debt services and capital expenditures. The City utilizes a full value system, assessing all properties at 100% of full market value. For the year ended June 30, 2012, the City had a legal tax margin of approximately \$37.5 million.

*Deposits and Investments* — Deposits include demand deposits and certificates of deposit. Cash equivalents include U.S. government securities and U.S. government securities purchased through repurchase agreements. Repurchase agreement securities are valued monthly to confirm that the fair value of the securities is equal to or greater than the value of the investment. The City did not have any repurchase agreements included within cash equivalents at June 30, 2012. All highly liquid investments with an original maturity date of approximately three months or less are considered to be cash equivalents. Investments are stated at fair value which approximates cost.

*Restricted Assets* — Certain assets are classified in the balance sheet as restricted because their use is limited. The proceeds of bond and note sales can only be used for the stated purpose of the borrowing. Property taxes collected for debt service payments are legally restricted for that purpose.

*Capital Assets* — Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, as well as within each individual proprietary fund. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000, and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. Additions are recorded at cost and donated fixed assets are recorded at their estimated fair value as of the date donated.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Class	Life in Years
Buildings	50
Building improvements	20
Improvements other than buildings	10 - 30
Infrastructure	20 - 50
Water system	20 - 40
Machinery and equipment	4 - 30

The capitalization threshold for the Board is \$5,000. Capital assets of the Board are depreciated using the straight-line method over the following estimated useful lives:

Assets	Life in Years
Buildings	50
Building improvements	20
Land improvements	20
General equipment	10
Computer, business machine, and audit visual equipment	5
Automotive	7

*Deferred Financing Costs* – Costs associated with the issuance of bonds have been capitalized and are being amortized on the straight line basis over the life of the bonds.

*Compensated Absences* — The City’s policy is to pay employees for unused vacation, compensatory time, and sick time based on union agreements when there is separation from service. For governmental activities, the amount is accrued in the government-wide statement of net assets as long-term liabilities. For business-type activities, the full liability is recognized in both the government-wide statement of net assets and the proprietary fund financial statements.

*Long-Term Liabilities* — In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums, if any, are deposited in the debt service fund and used to retire debt. Bond issuance costs related to governmental activities or business-type activities are reported as deferred charges within the government-wide financial statements and proprietary fund financial statements, respectively, and are amortized into interest expense over the term of related debt.

In the fund financial statements, governmental fund types report bond premiums and discounts, as well as bond issuance costs, as revenues/other financing sources and expenditures/other financing uses during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs are reported as interest and fiscal charges.

*Fund Equity* —The government-wide and business-type activities financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

*Invested in Capital Assets, Net of Related Debt* — This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

*Restricted Net Assets* — This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. The primary government’s government-wide statement of net assets reports \$51,798,524 of restricted net assets, of which \$24,297,521 is restricted for debt service and \$14,645,657 is restricted for state mandated initiatives.

*Unrestricted Net Assets (Deficit)* — This category represents net assets of the City not restricted for any project or other purpose.

In the fund financial statements, the City reports fund balance as nonspendable, restricted, committed, assigned and unassigned. Management has evaluated, classified and reported amounts in the appropriate fund balance classifications by applying accounting policies that determine whether funds are nonspendable, restricted, committed, assigned or unassigned. These policies have been disclosed in Note 15.

*Encumbrances* — Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded, is employed as part of the City's budgetary control mechanism for all funds. Unencumbered appropriations lapse at fiscal year end.

The City, for budgetary control purposes, accounts for encumbrances as a charge against appropriations and does not distinguish the portion of encumbrances that represent liabilities for goods or services received but not paid for at the balance sheet date. For financial statement purposes, these encumbrances are segregated into the portion that represents an outstanding liability for goods or services received versus a commitment for goods and services not received. The amounts representing goods or services received are shown in the financial statements as accounts payable and included in expenditures, while the amounts representing commitments are shown as a reservation of fund balance. Encumbrances outstanding at the end of the fiscal year do not lapse.

*Accrued Pension* — Amounts owed to the State Retirement Systems for wages paid to employees of the City but not yet billed are reported as liabilities in the financial statements.

*Estimates* — The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses/expenditures, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and during the reported period. Actual results could differ from those estimates.

*Reclassifications* — Certain amounts were reclassified from the Board's, BURA's, and BFSAs' financial statements to conform to the City's reporting presentation. In the BFSAs' statement of net assets, \$4,084,505 was reclassified from due to City of Buffalo to due to component units for sales tax that was a receivable from Erie County on behalf of the Board. And, in the BFSAs' statement of revenue, expenditures, and change in net assets, \$275,008,374 in investment income and intergovernmental revenue offset other distributions relating to proceeds and interest payments on bonds issued by the BFSAs on behalf of the City.

*Adoption of New Accounting Pronouncement* — During the year ended June 30, 2012, the City implemented GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, which did not have a material impact on the City's financial position or results of operation.

*Future Impacts of Accounting Pronouncements* — The City has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for the year ending June 30, 2013; GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*, GASB Statement No. 66, *Technical Corrections-2012—an amendment of GASB*

Statements No. 10 and No. 62, and GASB Statement No. 67, *Financial Reporting for Pension Plans*, effective for the year ending June 30, 2014; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* effective for the year ending June 30, 2015. The City is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 60, 61, 62, 63, 65, 66, 67 and 68 will have on its financial position and results of operations.

**2. RESTATEMENT AND CHANGES TO NET ASSETS**

During the year ended June 30, 2012, the City determined its hedging derivative met the criterion for an effective hedge under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The effect of the changes to beginning business-type activities net assets is summarized below:

	<u>Water System</u>
	<u>Water Board</u>
Beginning net assets, as originally stated	\$ 26,589,638
Change in accrued derivative liability	<u>3,897,514</u>
Beginning net assets, as restated	<u>\$ 30,487,152</u>

**3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information** — The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- ◆ Formal annual operating budgets are adopted by the Council for the general fund and the debt service fund. Annual budgets for proprietary funds serve only as financial plans. The budgets are prepared on a non-GAAP budgetary basis; encumbrances are charged against appropriations in the year the commitment is incurred. Formal budgetary integration is employed during the year as a management control device. The Common Council adopts long-term budgets covering the anticipated life of the project, grant, or program for the capital project and the special revenue fund.
- ◆ Prior to May 1, for the fiscal year beginning July 1, the Mayor submits to the Common Council a complete operating plan of proposed expenditures and estimated revenues for the City’s general fund and the debt service fund.
- ◆ The Council considers the operating budgets at the first meeting following their submission by the Mayor and has the power to delete, reduce, or add items to the budgets. If no additions are made by the Council, the budgets as passed by the Council are adopted without any Mayoral action. Any additions to the proposed executive budgets require Mayoral approval.
- ◆ The appropriation for every function of each City department, division, agency, or other purpose is fixed. The total expenditures for each function may not exceed the original appropriation during the fiscal year without Council approval. Increases over budget appropriations as originally adopted require a two-thirds vote of approval by the Council after certification by both the Mayor and the Comptroller, demonstrating that the increase is necessary to meet a contingency which could not have been reasonably foreseen when the budget was adopted.

The City reports its budgetary status with the actual data, including outstanding encumbrances as charges against budget appropriations. The following page includes a reconciliation of the budgetary-basis (i.e., non-GAAP) and the GAAP-basis operating results.

Deficiency of revenues and other financing sources under expenditures and other financial uses — GAAP basis	\$(16,319,326)
Less encumbrances	<u>(4,216,833)</u>
Deficiency of revenues and other financing sources under expenditures and other financial uses — basis of budgeting	<u>\$(20,536,159)</u>

Budget columns presented in the accompanying financial statements reflect deficiencies of revenues and other financing sources over expenditures and other financing uses. These deficiencies are caused by the anticipated use of prior-year's fund balance, which had been designated for fiscal year 2012 expenditures during the budget process.

**Excess of Expenditures Over Appropriations** — For the year ended June 30, 2012, expenditures exceeded appropriations in fringe benefits. The unfavorable variance of \$15,219,438 for fringe benefits is the result of an estimate for the cost of retroactive wages from July 1, 2009 for unsettled union contracts which were not included in the budget. Additionally, an unfavorable variance of \$708,809 for transfers out was noted due to budgeted amounts for capital outlay included within other expenses and the actual expense included within transfers out.

#### 4. DEPOSITS AND INVESTMENTS

The City's available cash is deposited and invested in accordance with the State General Municipal Law (Article 2, Section 11), which governs the City's investment policies. The City has its own written investment guidelines, which have been established by the Comptroller's Office pursuant to Section 114A of the City Charter. The City is authorized to deposit or invest funds in banks or trust companies located in, and authorized to do business in, the State. The City's investment policy governs the investment of excess funds. Funds generally may be invested in time deposits, certificates of deposit, obligations of the U.S. government and its agencies, and the State and its municipalities. Cash in banks was fully collateralized at June 30, 2012, of which the bank carrying balance at June 30, 2012, was \$554,439,261.

At June 30, 2012, cash and cash equivalents and investments consisted of the following:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash on hand (uncollateralized)	\$ 12,400	\$ -	\$ -	\$ 12,400
Deposits	492,099,588	85,659,936	1,698,401	579,457,925
Investments	17,063,812	-	32,912	17,096,724
Total	<u>\$ 509,175,800</u>	<u>\$ 85,659,936</u>	<u>\$ 1,731,313</u>	<u>\$ 596,567,049</u>

Cash and cash equivalents consisted of:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 346,429,962	\$ 40,293,016	\$ -	\$ 386,722,978
Restricted assets:				
Cash and cash equivalents	145,682,026	45,366,920	-	191,048,946
Cash held in fiduciary funds	-	-	1,698,401	1,698,401
Total	<u>\$ 492,111,988</u>	<u>\$ 85,659,936</u>	<u>\$ 1,698,401</u>	<u>\$ 579,470,325</u>

**Investments** — At June 30, 2012, total investments of \$17,096,724 consisted of investments held by the BFSA of \$17,002,340, held by the City of \$61,472 and maintained in fiduciary funds of \$32,912. Investments at June 30, 2012, consist of the following:

	<u>Carrying Value</u>	<u>Fair Value</u>
Governmental activities:		
Certificates of deposit	\$ 94,384	\$ 94,384
U.S. Treasury SLGs	1,044,052	1,044,052
U.S. Treasury bills	1,587,853	1,587,853
Federal Home Loan Mortgage corporate discount paper	4,623,311	4,624,552
Federal National Mortgage Association discount notes	7,696,917	7,722,649
Federal Home Loan Mortgage Corp. Med. Term note	166,880	174,230
Commerical Paper	422,794	422,794
US Dept. Housing & Urban Dev Agency Obligation	1,288,754	1,292,625
Accrued Interest	171,779	171,779
Total	<u>\$ 17,096,724</u>	<u>\$ 17,134,918</u>

Investments in fiduciary funds consist solely of certificates of deposit at June 30, 2012. Additionally, investments include restricted amounts for those fund balances constrained to specific purposes through constitutional provisions or by enabling legislation.

The risk and type of investments presented above generally indicate activity and positions held throughout the year. Maturities related to the BFSA's investments are generally short term with certifications of deposits issued with 30-day maturities and U.S. Treasuries and commercial paper due within 45 days. The credit rating of Federal Home Loan Mortgage corporate discount paper, Federal National Mortgage Association discount notes, Federal Home Loan Mortgage Corporate Medium Term note and Commercial Paper, as reported by Standard & Poor's, for short-term debt is AA+.

**Interest Rate Risk** — The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments are generally limited to 180 days or less.

**Credit Risk** — In compliance with the State law, City investments are limited to obligations of the United States of America, obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America, obligations of the State, time deposit accounts and certificates of deposit issued by a bank or trust company located in, and authorized to do business in, the State, and certain joint or cooperative investment programs.

**Custodial Credit Risk** — For investments, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A margin of 2% or higher of the market value of purchased securities in repurchase transactions must be maintained and the securities must be held by a third party in the City's name. For deposits, this is the risk that, in the event of a bank failure,

the City's deposits may not be returned to it. Collateral is required for deposits and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Banks can satisfy collateral requirements by furnishing a letter of credit, a surety bond, or by pledging eligible securities as specified in Section 10 of the State General Municipal Law. If collateral is required, it can be in the form of a surety bond or obligations of the United States, the State, or any municipality or college of the State. Certain balances for accounts held in trust are collateralized by the State.

Deposits are collateralized with eligible securities of an aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). Securities that may be pledged as collateral are limited to obligations of the United States or any obligation fully insured as to interest and principal by the United States acting through an agency, and obligations of the State or obligations of any municipal corporation, school district, or district corporation of the State.

**Concentration of Credit Risk** — To promote competition in rates and service cost, and to limit the risk of institutional failure, City deposits and investments are placed with multiple institutions. The general rule is not to place more than \$100 million or 50% of the City's total investment portfolio, whichever is less, in overnight investments with any one institution.

**Deposits** — The City deposits cash into a number of bank accounts. Monies must be deposited in demand or time accounts or certificates of deposit issued by FDIC-insured commercial banks or trust companies located within the State. Some of the City's accounts are required by various statutes and borrowing restrictions for specific funds, while the remainder are used for City operating cash and for investment purposes. There are no deposits which are uninsured or not collateralized.

**Governmental Activities Restricted Cash and Cash Equivalents** — General fund restricted assets represent monies set aside as part of the funding requirements of the State for the settlement of the dispute between the Board and the Buffalo Teachers Federation. At June 30, 2012, the restricted cash amounted to \$9,803,163 and consisted of cash and cash equivalents held in a bank custodial account. The initial settlement was bonded and such restricted cash is being used to pay the debt service requirements. In addition, debt service fund restricted assets of \$2,464,302 are held by a trustee for future debt service payments. Restricted cash of \$104,044,427 is reported within the capital projects fund for amounts representing nonoperating cash raised through borrowings, grants and transfers from other funds. Additionally, the City reports \$13,036,383, \$14,645,657, \$1,610,671, \$2,347 and \$75,076 in the general fund, BFSAs special revenue fund, special revenue fund, BFSAs debt service fund and permanent fund, respectively, which represent amounts with constraints placed on their use by either external parties and/or statute.

**Business-Type Activities Restricted Cash and Cash Equivalents** — Business-type restricted assets represent monies raised from the issuance of debt to fund additions to enterprise plant assets and may only be used for this purpose.

The restricted cash consists primarily of Treasury notes, Treasury bills, and certificates of deposit with a commercial bank. At June 30, 2012, \$725,264 of the water system's restricted cash consisted of U.S. government securities recorded in the water system's name and held in a bank custodial account. The water system also maintains money market accounts with fair values totaling \$44,600,794 at June 30, 2012. Restricted cash in the parking fund of \$40,862 consisted of cash and cash equivalents and is held in a bank account.

**Board of Education** — At June 30, 2012, cash in banks was \$287,279. This amount was fully collateralized.

**Restricted Cash** — The Board has restricted cash of \$185,657,720 at June 30, 2012, for various purposes as follows:

- ◆ Pursuant to the issuance of State of New York Municipal Bond Bank Agency Revenue Bonds, the Board is to maintain a Debt Service Reserve held with a fiscal agent of \$1,800,000. Such cash is held with a fiscal agent.
- ◆ \$538,106 is restricted for the joint account held in trust with the Buffalo Teachers Federation in relation to a teacher's settlement. Such cash is held with a fiscal agent.
- ◆ \$65,288,588 is restricted for the local share contribution held in trust which can only be disbursed in accordance with the Indenture Trust Agreement, and represents an amount of the Series 2003 bond proceeds to be deposited and maintained by a trustee. Such cash is held with a fiscal agent.
- ◆ Bond proceeds of \$106,242,959 at June 30, 2012, are held in trust and can only be utilized for approved project costs.
- ◆ \$11,035,489 represents a local share contribution to be held in trust and can only be disbursed in accordance with the Local Share Trust and Depository Agreement.
- ◆ \$340,830 represents endowment funds and can be used in accordance with the respective endowment document.
- ◆ \$411,748 is restricted to support obligations related to workers' compensation claims.

**Buffalo Urban Renewal Agency**

**Buffalo Urban Renewal Agency** — Bank balances totaled \$2,687,184 at June 30, 2012, of which \$719,466 was deposited with three financial institutions covered by Federal deposit insurance. BURA reported \$440 of petty cash at June 30, 2012.

## 5. RECEIVABLES

Receivables at June 30, 2012, for the City's individual funds and related allowance for uncollectible accounts are as follows:

<b>Receivables:</b>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
<b>Governmental Funds:</b>			
General Fund:			
Taxes	\$ 18,151,624	\$ (8,512,955)	\$ 9,638,669
Accounts receivable	9,902,022	(5,012,106)	4,889,916
Other receivables	50	-	50
Due from other agencies	2,571,333	(1,669,923)	901,410
Due from other funds	53,230,846	-	53,230,846
Due from other governments	<u>13,053,483</u>	<u>(10,683,053)</u>	<u>2,370,430</u>
	<u>\$ 96,909,358</u>	<u>\$ (25,878,037)</u>	<u>\$ 71,031,321</u>
Debt Service Fund:			
Other receivables	\$ 1,014	\$ -	\$ 1,014
Due from other funds	<u>1,038,873</u>	<u>-</u>	<u>1,038,873</u>
	<u>\$ 1,039,887</u>	<u>\$ -</u>	<u>\$ 1,039,887</u>
Capital Projects Fund:			
Other receivables	\$ 104,263	\$ -	\$ 104,263
Due from other governments	<u>3,685,621</u>	<u>-</u>	<u>3,685,621</u>
	<u>\$ 3,789,884</u>	<u>\$ -</u>	<u>\$ 3,789,884</u>
BFSA Special Revenue Fund:			
Due from other governments	<u>\$ 31,264,574</u>	<u>\$ -</u>	<u>\$ 31,264,574</u>
Other governmental funds:			
Other receivables	\$ 3,137	\$ -	\$ 3,137
Due from other funds	14,114	-	14,114
Due from other governments	<u>1,286,658</u>	<u>-</u>	<u>1,286,658</u>
	<u>\$ 1,303,909</u>	<u>\$ -</u>	<u>\$ 1,303,909</u>

(continued)

(concluded)

<b>Receivables:</b>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
<b>Proprietary Funds:</b>			
Solid Waste and Recycling Fund:			
Accounts receivable	\$ 13,330,315	\$ (12,528,351)	\$ 801,964
Other receivables	<u>238,926</u>	<u>(39,842)</u>	<u>199,084</u>
	<u>\$ 13,569,241</u>	<u>\$ (12,568,193)</u>	<u>\$ 1,001,048</u>
Parking Fund:			
Accounts receivable	\$ 4,210,486	\$ -	\$ 4,210,486
Other receivables	<u>19</u>	<u>-</u>	<u>19</u>
	<u>\$ 4,210,505</u>	<u>\$ -</u>	<u>\$ 4,210,505</u>
Water System Fund:			
Accounts receivable	\$ 17,154,846	\$ (13,927,033)	\$ 3,227,813
Other receivables	808,106	-	808,106
Due from other agencies	127,425	-	127,425
Due from other governments	<u>721,572</u>	<u>-</u>	<u>721,572</u>
	<u>\$ 18,811,949</u>	<u>\$ (13,927,033)</u>	<u>\$ 4,884,916</u>
Internal Service Fund:			
Accounts receivable	<u>\$ 10,023</u>	<u>\$ -</u>	<u>\$ 10,023</u>

Due from other governments at June 30, 2012, consists of the following:

**Due from other governments:**

**Governmental Funds:**

General Fund:

Due from Erie County	\$ 10,763,732
Due from New York State	2,268,697
Due from federal government	<u>21,054</u>
	<u>\$ 13,053,483</u>

Capital Projects Fund:

Due from New York State	<u>\$ 3,685,621</u>
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BFSA Special Revenue Fund:

Due from New York State	<u>\$ 31,264,574</u>
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Other Governmental Funds:

Special Revenue Fund:

Due from federal government	\$ 824,485
Due from New York State	<u>462,173</u>
	<u>\$ 1,286,658</u>

**Proprietary Funds:**

Water System:

Due from federal government	\$ 477,578
Due from New York State	<u>243,994</u>
	<u>\$ 721,572</u>

**Board of Education**

*Accounts Receivable* — Accounts receivable represents amounts due for tuition and health services provided to other districts and other various items.

Major revenues consist of the following at June 30, 2012:

General Fund:

Miscellaneous revenues	\$ 1,766,715
E-Rate	1,011,612
Health Services	986,112
Tuition billing	285,700
School Food Service Fund	96,282
Special Aid Fund	<u>27,579</u>
Total	<u>\$ 4,174,000</u>

Due from other governments and agencies consists of the following at June 30, 2012:

General Fund:	
State aid - basic	\$ 11,482,761
State aid - excess	14,117,794
State aid - Medicaid	510,195
Miscellaneous	1,008,874
Special Aid Fund: Federal and state aid (net of deferred revenue)	52,782,245
Food Service Fund: Federal and state aid	<u>1,654,419</u>
Total	<u>\$ 81,556,288</u>

### **Buffalo Urban Renewal Agency**

Accounts receivable for BURA consist of program loans receivable, notes receivable, and advances to subgrantees. Additionally, BURA reports due from other governments.

*Program Loans* — Program loans receivable consist of several economic development loans made directly by BURA or indirectly through Buffalo Economic Renaissance Corporation (BERC) to qualifying developers. As of June 30, 2012, program loans receivable consist of Community Development Block Grant (“CDBG”) funds advanced by BURA to BERC for Section 108 program loans due within the year in the amount of \$300,000.

*Notes Receivable* — Various notes from individuals, businesses, and other organizations were outstanding at June 30, 2012, representing funds advanced by BURA for projects designed to stimulate economic development and housing improvements in the City. These notes are secured by mortgages with varying repayment terms.

*Advances to Subgrantees* — In the course of conducting various projects funded through the CDBG and other grant programs, BURA contracts with numerous subgrantees to perform program services at the community level. In connection with those subgrant contracts, BURA has advanced CDBG and other funds to provide working capital for the subgrantees which are reported as advances receivable.

*Due From Federal Government* — \$282,500 of the amount presented as due from the federal government represents a 10% guarantee on loans issued under the Department of Housing and Urban Development’s Section 108 program prior to October 30, 1986. This amount will become available for use in the CDBG grant program as Section 108 loan principal balances are reduced through repayments from the individual borrowers. The remaining amount represents amounts not yet received by BURA from the federal government for expenses incurred under federal grant programs.

## 6. CAPITAL ASSETS

### Governmental-Type Activities

Class	Balance July 1, 2011	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2012
Capital assets — not being depreciated:				
Land	\$ 12,577,380	\$ -	\$ -	\$ 12,577,380
Construction in progress	<u>1,020,650</u>	<u>4,007,145</u>	<u>1,020,649</u>	<u>4,007,146</u>
Total capital assets — not being depreciated	<u>13,598,030</u>	<u>4,007,145</u>	<u>1,020,649</u>	<u>16,584,526</u>
Capital assets — being depreciated:				
Buildings and building improvements	266,325,022	9,441,915	932,734	274,834,203
Improvements other than buildings	40,982,403	631,978	128,902	41,485,479
Machinery and equipment	54,576,267	6,164,539	3,164,743	57,576,063
Infrastructure	<u>349,977,915</u>	<u>18,088,757</u>	<u>-</u>	<u>368,066,672</u>
Total capital assets — being depreciated	<u>711,861,607</u>	<u>34,327,189</u>	<u>4,226,379</u>	<u>741,962,417</u>
Less accumulated depreciation for:				
Buildings and building improvements	96,968,567	5,241,966	597,178	101,613,355
Improvements other than buildings	26,853,324	1,603,791	105,588	28,351,527
Machinery and equipment	37,005,520	5,268,940	3,151,710	39,122,750
Infrastructure	<u>158,401,247</u>	<u>13,989,461</u>	<u>-</u>	<u>172,390,708</u>
Total accumulated depreciation	<u>319,228,658</u>	<u>26,104,158</u>	<u>3,854,476</u>	<u>341,478,340</u>
Total capital assets being depreciated — net	<u>392,632,949</u>	<u>8,223,031</u>	<u>371,903</u>	<u>400,484,077</u>
Governmental activities' capital assets — net	<u>\$ 406,230,979</u>	<u>\$ 12,230,176</u>	<u>\$ 1,392,552</u>	<u>\$ 417,068,603</u>

### Business-Type Activities

Class	Balance July 1, 2011	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2012
Capital assets — not being depreciated:				
Land	\$ 3,362,210	\$ -	\$ -	\$ 3,362,210
Construction in progress	941,374	13,200,092	13,275,318	866,148
Total capital assets — not being depreciated	<u>4,303,584</u>	<u>13,200,092</u>	<u>13,275,318</u>	<u>4,228,358</u>
Capital assets — being depreciated:				
Buildings and building improvements	159,576,479	9,566,353	-	169,142,832
Improvements other than buildings	430,784	63,193	-	493,977
Machinery and equipment	8,847,401	2,971,915	3,071,617	8,747,699
Infrastructure	93,736,396	2,409,785	-	96,146,181
Total capital assets — being depreciated	<u>262,591,060</u>	<u>15,011,246</u>	<u>3,071,617</u>	<u>274,530,689</u>
Less accumulated depreciation for:				
Buildings and building improvements	44,078,275	3,422,232	-	47,500,507
Improvements other than buildings	295,726	20,617	-	316,343
Machinery and equipment	7,205,309	926,545	3,071,617	5,060,237
Infrastructure	38,665,847	2,432,654	-	41,098,501
Total accumulated depreciation	<u>90,245,157</u>	<u>6,802,048</u>	<u>3,071,617</u>	<u>93,975,588</u>
Total capital assets being depreciated — net	<u>172,345,903</u>	<u>8,209,198</u>	<u>-</u>	<u>180,555,101</u>
Business-type activities' capital assets — net	<u>\$ 176,649,487</u>	<u>\$ 21,409,290</u>	<u>\$ 13,275,318</u>	<u>\$ 184,783,459</u>

Depreciation expense was charged to City functions and programs as follows:

Governmental activities:	
General government	\$ 2,783,719
Public safety	6,176,729
Streets and sanitation	13,624,270
Economic assistance and opportunity	456,656
Culture and recreation	3,055,421
Health and community services	<u>7,363</u>
Total depreciation expense — governmental activities	<u>\$ 26,104,158</u>
Business-type activities:	
Water	\$ 4,372,760
Parking	1,604,123
Solid waste and recycling	<u>825,165</u>
Total depreciation expense — business-type activities	<u>\$ 6,802,048</u>

The carrying value of idle impaired assets at June 30, 2012, totaling \$278,709, in accordance with GASB 42 *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, represents two impaired firehouses, a library and a community center building.

**Board of Education** — Capital asset activity of the Board for fiscal year ended June 30, 2012, was as follows:

Class	Balance July 1, 2011	Additions and Reclassifications	Deductions and Reclassifications	Balance June 30, 2012
Capital assets — not being depreciated:				
Land	\$ 3,621,542	\$ -	\$ -	\$ 3,621,542
Construction in progress	162,505,896	73,508,600	115,853,267	120,161,229
Total capital assets — not being depreciated	<u>166,127,438</u>	<u>73,508,600</u>	<u>115,853,267</u>	<u>123,782,771</u>
Capital assets — being depreciated:				
Land improvements	4,601,390	1,245,983	-	5,847,373
Buildings and building improvement	1,303,405,174	167,807,765	-	1,471,212,939
Equipment	17,605,018	3,007,478	-	20,612,496
Total capital assets — being depreciated	<u>1,325,611,582</u>	<u>172,061,226</u>	<u>-</u>	<u>1,497,672,808</u>
Less accumulated depreciation for:				
Land improvements	4,235,513	79,198	-	4,314,711
Buildings and building improvement	387,982,917	56,654,015	-	444,636,932
Equipment	11,277,284	1,508,050	-	12,785,334
Total accumulated depreciation	<u>403,495,714</u>	<u>58,241,263</u>	<u>-</u>	<u>461,736,977</u>
Total capital assets being depreciated — net	<u>922,115,868</u>	<u>113,819,963</u>	<u>-</u>	<u>1,035,935,831</u>
Government activities' capital assets — net	<u>\$ 1,088,243,306</u>	<u>\$ 187,328,563</u>	<u>\$ 115,853,267</u>	<u>\$ 1,159,718,602</u>

**Buffalo Urban Renewal Agency** — BURA's governmental capital assets, recorded at cost, as of June 30, 2012, are summarized as follows:

Function and Activity	Construction					Total
	Land	In Progress	Building	Equipment	Vehicles	
Economic development administration	\$ 380,370	\$ 247,561	\$ 14,706,007	\$ 787,938	\$ 105,558	\$ 16,227,434
General administration	-	-	-	24,866	-	24,866
Subtotal	380,370	247,561	14,706,007	812,804	105,558	16,252,300
Accumulated depreciation	-	-	4,884,916	709,398	105,558	5,699,872
Capital assets — net	<u>\$ 380,370</u>	<u>\$ 247,561</u>	<u>\$ 9,821,091</u>	<u>\$ 103,406</u>	<u>\$ -</u>	<u>\$ 10,552,428</u>

For the year ended June 30, 2012, depreciation in the amount of \$323,396 has been recorded using the straight-line method over the useful lives of the assets, which range from 5 to 39 years.

**7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

To improve cash management, all City disbursements are made from a consolidated account in the general fund. Also, the cash balances of certain capital funds are consolidated to maximize investment return. Both these cash management practices, as well as normal delays in processing interfund transfers and reimbursements, are the main reasons why interfund receivables and payables exist. These receivables and payables are short term in nature and are typically repaid in less than one year.

At June 30, 2012, a schedule summarizing individual fund interfund receivables and payables is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Activities:		
General Fund	\$ 53,230,846	\$ 245,957
Debt Service Fund	1,038,873	-
Capital Projects Fund	-	10,655,885
BFSA Special Revenue Fund	-	25,744,078
Other governmental funds	14,114	2,293,123
	<u>54,283,833</u>	<u>38,939,043</u>
Business-type Activities:		
Solid Waste and Recycling Fund	-	14,723,456
Parking Fund	-	39,241
Water System	-	581,994
Internal Service Fund	-	99
	<u>-</u>	<u>15,344,790</u>
Total government-wide	<u>\$ 54,283,833</u>	<u>\$ 54,283,833</u>

The long-term portion in the amount of \$14,723,456 included within the general fund's due from other funds totaling \$53,230,846 has been set aside as nonspendable fund balance.

The City records the receipt of all property taxes levied as revenue in the general fund and records a transfer to the debt service fund where the payment on long-term debt is reported. Based on the financing and operation agreements of the Water Board, revenues collected are transferred to the Water Authority and water enterprise fund to cover their operational costs. Other transfers are the result of indirect costs.

A schedule summarizing interfund transfers during the year ended June 30, 2012 is as follows:

Transfer out	Transfer In					Total
	General	Debt Service	Capital Projects	Other Governmental	Solid Waste & Recycling	
General	\$ -	\$ 32,455,065	\$ 2,200,000	\$ -	\$ 3,276,965	\$ 37,932,030
Debt Service	-	-	-	14,907,754	-	14,907,754
Capital Projects	1,298,404	805,539	-	238,153	110,954	2,453,050
BFSA Special Revenue	-	-	-	3,376,162	-	3,376,162
Solid Waste & Recycling	673,048	-	-	-	-	673,048
Parking	5,200,000	165,654	47,622	-	-	5,413,276
Water System	4,904,446	-	-	-	-	4,904,446
<b>Total</b>	<b>\$ 12,075,898</b>	<b>\$ 33,426,258</b>	<b>\$ 2,247,622</b>	<b>\$ 18,522,069</b>	<b>\$ 3,387,919</b>	<b>\$ 69,659,766</b>

## 8. CAPITAL LEASES

The City has entered into lease agreements as a lessee for financing the acquisition of various capital assets (computer equipment, traffic signals and recycling totes). Lease principal payments for governmental activities are recorded as expenditures in the appropriate fund and as reduction in capital lease liability within enterprise funds. In the government-wide financial statements, no principal payments are reflected as expenditures.

The City's future minimum lease payments under capital leases as of June 30, 2012, are as follows:

Fiscal Year Ending June 30,	Governmental Activities	Business-Type Activities
2013	\$ 486,584	\$ 724,663
2014	486,584	724,663
2015	486,584	724,663
2016	-	241,554
Total minimum lease payments	1,459,752	2,415,543
Less: amount representing interest	(79,876)	(69,046)
Present value of minimum lease payments	<u>\$ 1,379,876</u>	<u>\$ 2,346,497</u>

The assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Assets:		
Building improvements	\$ 4,307,260	\$ -
Infrastructure	3,926,320	-
Equipment	-	2,800,000
	8,233,580	2,800,000
Less: accumulated depreciation	(1,534,785)	(466,667)
	<u>\$ 6,698,795</u>	<u>\$ 2,333,333</u>

## 9. LONG-TERM DEBT

Governmental and business-type activities' long-term bonded debt consists of either general obligation bonds backed by the full faith and credit of the City or revenue bonds. The revenue bondholder's recourse is secured solely by the City's Water System revenues. Bonds issued by the BFSAs are secured by sales tax and state aid. The debt issued by the City to the BFSAs has been eliminated in the government-wide financial statements to eliminate the duplicative reporting of total outstanding debt. The debt issued by the City on behalf of the Board of Education is recorded as revenues and expenditures in the governmental funds.

In July 2011, the City issued \$27,165,000 of general obligation bonds, consisting of \$22,265,000 of City general improvement serial bonds and \$4,900,000 of Board of Education serial bonds. Principal payments begin on April 1, 2012 and mature in 2026. These bonds were issued at premiums of \$639,521 and \$139,582 for the City and Board, respectively. These bonds bear an interest rate ranging between 2.0% and 4.0%.

In July 2011, the City issued \$27,250,000 of refunding bonds, consisting of \$3,480,000 of City general improvement refunding bonds (Series 2011E), \$15,355,000 of Board of Education refunding bonds (Series 2011F) and \$8,415,000 of parking refunding bonds (Series 2011G). The Series 2011E and Series 2011F bonds were issued at a premium of \$130,366 and \$367,545, respectively, and the Series 2011G bonds were issued at a discount of \$9,709. Principal payments begin on November 15, 2012 and mature in 2021, 2020 and 2021, respectively. Together, these bonds refund the previously issued Series 2002A, Series 2002B and Series 2002C serial bonds, originally issued for various capital improvements. Collectively, they bore interest rates ranging between 4.6% - 5.4%. The 2011 refunding bonds bear an interest rate ranging between 2.0% and 5.0%. The payment to an escrow agent of \$27,307,867 (\$3,550,869, \$15,490,646 and \$8,266,352 for the City, Board and parking, respectively) was used to purchase direct obligations of the United States of America and fund transaction costs with the remaining cash proceeds from the sale of the bonds, and placed in an irrevocable trust to pay for all future debt service payments of the original bonds. As a result, the original bonds are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2011 refinancing totaled \$25,420,000, has been removed from the financial statements. The 2011 refinancing resulted in an economic gain of \$1,511,323.

In April 2012, the City issued \$39,865,000 of general obligation and refunding bonds, consisting of \$21,640,000 of City general improvement serial bonds (Series 2012A), \$5,000,000 of Board of Education serial bonds (Series 2012B) and \$13,225,000 of City (\$4,255,000), Board of Education (\$6,720,000) and parking (\$2,250,000) refunding bonds (Series 2012C). The Series 2012A and Series 2012B were issued at premiums of \$1,588,889 and \$119,762, respectively. The Series 2012C refunding bonds were issued at premiums of \$245,637, \$277,709, and \$143,222 for the City, Board and Parking, respectively. Principal payments begin on April 1, 2013 and mature in 2023, 2027 and 2024, respectively. The Series 2012C refunding bonds are refunding previously issued Series 1998C (\$7,925,000) and Series 2001C (\$6,635,000) general obligation refunding bonds, which bore interest rates ranging between 4.65% - 5.25%. The 2012C refunding bonds bear an interest rate ranging between 2.0% and 4.0%. The payment to an escrow agent of \$14,928,149 (\$5,715,467, \$6,864,361 and \$2,348,321 for City, Board and parking, respectively) was used to purchase direct obligations of the United States of America and fund transaction costs with the remaining cash proceeds from the sale of the bonds, and placed in an irrevocable trust to pay for all future debt service payments of the original bonds. As a result, the original bonds are considered fully refunded and the liability of those bonds, the outstanding balance at the time of the 2012 refinancing totaled \$13,225,000, has been removed from the financial statements. The 2012 refinancing resulted in an economic gain of \$1,630,787.

Principal and interest are paid semiannually, generally in equal installments. Noncurrent liabilities at June 30, 2012, are as follows:

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
<b>Governmental activities general obligations bonds issued by City Buffalo:</b>								
1974	\$ 4,200,000	5.6	2014	\$ 375,000	\$ -	\$ 125,000	\$ 250,000	\$ 125,000
1998	14,000,000	3.6-5.25	2025	1,777,500	-	1,777,500	-	-
1999	45,758,000	2.84-3.9	2019	2,870,000	-	2,870,000	-	-
1999	36,996,000	5.0	2014	3,965,000	-	1,960,000	2,005,000	2,005,000
2001	28,686,000	4.0-5.38	2021	1,120,000	-	1,120,000	-	-
2001	5,605,000	4-5.25	2020	3,815,000	-	3,815,000	-	-
2002	23,825,000	2.5-5	2022	8,325,000	-	5,005,000	3,320,000	1,060,000
2004	10,285,000	1.5-5.6	2025	7,845,000	-	400,000	7,445,000	420,000
2004	15,245,000	2-4.2	2016	7,645,000	-	1,415,000	6,230,000	1,465,000
2005	26,167,250	5.0	2025	15,319,485	-	1,983,770	13,335,715	2,027,958
2005	34,346,833	5.0	2019	17,294,848	-	4,825,826	12,469,022	3,756,243
2006	25,275,917	5.0	2022	18,175,571	-	1,650,571	16,525,000	1,730,000
2007	22,226,126	5.0	2023	18,175,523	-	1,142,824	17,032,699	1,197,715
2008	22,000,000	3.0-5.25	2023	18,380,000	-	1,165,000	17,215,000	1,215,000
2009	21,500,000	1.35-6.0	2024	19,090,000	-	1,150,000	17,940,000	1,195,000
2010	21,985,000	2.0-5.0	2025	20,655,000	-	1,065,000	19,590,000	1,120,000
2011	12,825,000	3.0-5.0	2021	12,825,000	-	100,000	12,725,000	4,260,000
2012	22,265,000	2.0-4.0	2026	-	22,265,000	1,370,000	20,895,000	1,190,000
2012	3,480,000	3.0-4.0	2022	-	3,480,000	-	3,480,000	-
2012	21,640,000	2.0-5.0	2023	-	21,640,000	-	21,640,000	1,730,000
2012	4,255,000	2.0-4.0	2025	-	4,255,000	40,000	4,215,000	355,000
Total				<u>177,652,927</u>	<u>51,640,000</u>	<u>32,980,491</u>	<u>196,312,436</u>	<u>24,851,916</u>

(continued)

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
<b>Governmental activities – issued on behalf of Discretely Presented Component Unit – Board – General Obligations Bonds:</b>								
1998	\$ 10,950,000	3.60-5.25	2025	\$ 7,462,500	\$ -	\$ 7,462,500	\$ -	\$ -
2001	11,100,000	4.0-5.1	2021	435,000	-	435,000	-	-
2001	14,105,000	4.0-5.0	2012	2,000,000	-	1,000,000	1,000,000	1,000,000
2001	34,000,000	4.0-5.5	2016	2,540,000	-	2,540,000	-	-
2002	34,250,000	2.5-5.375	2020	19,900,000	-	16,145,000	3,755,000	1,840,000
2003	3,725,000	2.75-5.5	2014	1,080,000	-	344,000	736,000	358,000
2003	5,344,000	2.75-5.5	2018	3,591,000	-	223,000	3,368,000	232,000
2003	26,691,000	2.75-5.5	2019	18,546,000	-	1,034,000	17,512,000	1,073,000
2003	17,239,000	2.75-5.5	2019	12,071,000	-	662,000	11,409,000	694,000
2004	2,700,000	2.0-4.875	2022	1,935,000	-	140,000	1,795,000	145,000
2005	7,258,477	5.0	2016	3,971,059	-	740,239	3,230,820	777,006
2006	2,483,000	5.0	2020	1,787,000	-	162,000	1,625,000	170,000
2007	5,889,000	5.0	2019	4,307,000	-	451,000	3,856,000	474,000
2008	8,920,000	3.0-5.25	2023	7,440,000	-	465,000	6,975,000	490,000
2009	3,530,000	2.5-5.0	2024	3,130,000	-	190,000	2,940,000	195,000
2010	4,900,000	2.5-4.0	2025	4,595,000	-	265,000	4,330,000	275,000
2011	21,825,000	3.0-4.0	2021	21,825,000	-	105,000	21,720,000	3,190,000
2012	4,900,000	3.0-4.0	2026	-	4,900,000	295,000	4,605,000	265,000
2012	15,355,000	2.0-5.0	2021	-	15,355,000	450,000	14,905,000	30,000
2012	5,000,000	2.0-3.25	2027	-	5,000,000	-	5,000,000	290,000
2012	6,720,000	2.0-4.0	2025	-	6,720,000	65,000	6,655,000	770,000
Total				<u>116,615,559</u>	<u>31,975,000</u>	<u>33,173,739</u>	<u>115,416,820</u>	<u>12,268,006</u>
Less bonds issued by City to BFSAs:								
2005A	\$ 26,167,250	4.0-5.0	2025	(15,319,485)	-	(1,983,770)	(13,335,715)	(2,027,958)
2005BC	41,605,310	5.0	2019	(21,265,907)	-	(5,566,065)	(15,699,842)	(4,533,248)
2006A	27,758,917	4.0-5.0	2020	(19,962,572)	-	(1,812,571)	(18,150,001)	(1,900,000)
2007A	28,115,126	4.0-5.0	2023	(22,482,522)	-	(1,593,824)	(20,888,698)	(1,671,715)
Total mirror bonds				<u>(79,030,486)</u>	<u>-</u>	<u>(10,956,230)</u>	<u>(68,074,256)</u>	<u>(10,132,921)</u>
Net governmental activities general obligation bonds issued by the City of Buffalo				<u>215,238,000</u>	<u>83,615,000</u>	<u>55,198,000</u>	<u>243,655,000</u>	<u>26,987,001</u>
<b>Governmental activities general obligations bonds issued by Buffalo Fiscal Stability Authority:</b>								
2004	\$ 25,745,000	4.0-5.25	2015	\$ 11,915,000	\$ -	\$ 2,750,000	\$ 9,165,000	\$ 2,895,000
2005A	28,030,000	4.0-5.0	2025	17,435,000	-	1,960,000	15,475,000	2,000,000
2005BC	47,065,000	5.0	2019	30,945,000	-	7,565,000	23,380,000	6,140,000
2006A	27,270,000	4.0-5.0	2020	21,740,000	-	1,760,000	19,980,000	1,830,000
2007A	28,470,000	4.0-5.0	2023	24,725,000	-	1,490,000	23,235,000	1,670,000
Total				<u>106,760,000</u>	<u>-</u>	<u>15,525,000</u>	<u>91,235,000</u>	<u>14,535,000</u>
Total governmental activities bonds				<u>321,998,000</u>	<u>83,615,000</u>	<u>70,723,000</u>	<u>334,890,000</u>	<u>41,522,001</u>
Unamortized premium - City				3,609,968	3,249,667	696,410	6,163,225	-
Unamortized premium - BFSAs				<u>5,817,344</u>	<u>-</u>	<u>713,162</u>	<u>5,104,182</u>	<u>-</u>
Total governmental activities bonds - net				<u>331,425,312</u>	<u>86,864,667</u>	<u>72,132,572</u>	<u>346,157,407</u>	<u>41,522,001</u>

(continued)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Other noncurrent liabilities:					
Nittec loan	\$ 1,558,970	\$ -	\$ 247,137	\$ 1,311,833	\$ 252,080
Capital leases	2,236,680	-	856,804	1,379,876	445,151
Compensated absences	25,935,572	23,747,490	24,993,140	24,689,922	1,084,746
Workers' compensation	8,376,975	5,571,464	6,297,061	7,651,378	2,962,226
Landfill post-closure monitoring	1,250,000	-	100,000	1,150,000	100,000
Other postemployment benefits	244,190,000	106,235,000	43,556,000	306,869,000	-
Other postemployment benefits-BFSA	314,222	57,041	-	371,263	-
Judgments and claims	33,895,500	12,678,483	32,973,983	13,600,000	5,200,000
<b>Total</b>	<u>317,757,919</u>	<u>148,289,478</u>	<u>109,024,125</u>	<u>357,023,272</u>	<u>10,044,203</u>
<b>Total noncurrent liabilities—governmental activities</b>	<u>\$ 649,183,231</u>	<u>\$ 235,154,145</u>	<u>\$ 181,156,697</u>	<u>\$ 703,180,679</u>	<u>\$ 51,566,204</u>

Calendar Year Issued	Original Amount	Interest Rate	Fiscal Year of Last Installment	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
<b>Business-type activities — General Obligation Bonds:</b>								
Parking:								
1998	2,385,000	3.6-5.0	2012	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
2001	11,660,000	4.0-5.3	2017	4,440,000	-	3,640,000	800,000	800,000
2002	21,310,000	2.5-5.375	2022	12,935,000	-	8,940,000	3,995,000	1,275,000
2012	8,415,000	2.0-5.0	2022	-	8,415,000	100,000	8,315,000	75,000
2012	2,250,000	2.0-4.0	2024	-	2,250,000	-	2,250,000	-
Subtotal — Parking				<u>17,575,000</u>	<u>10,665,000</u>	<u>12,880,000</u>	<u>15,360,000</u>	<u>2,150,000</u>
Water System:								
2005	6,552,147	5	2018	2,114,093	-	573,935	1,540,158	271,753
<b>Total</b>				<u>19,689,093</u>	<u>10,665,000</u>	<u>13,453,935</u>	<u>16,900,158</u>	<u>2,421,753</u>

**Business-type activities — Water System Revenue Bonds:**

1998	\$ 16,325,000	4.0-4.75	2013	\$ 565,000	\$ -	\$ 275,000	\$ 290,000	\$ 290,000
1998	49,715,000	4.0-5.0	2013	6,180,000	-	2,850,000	3,330,000	3,330,000
2002	11,785,000	2.5-4.75	2018	2,120,000	-	265,000	1,855,000	275,000
2002	4,379,279	1.53-5.12	2022	2,720,000	-	2,720,000	-	-
2003	3,901,741	5.6-6.31	2031	3,140,000	-	2,680,000	460,000	110,000
2006	19,917,236	3.6-4.84	2028	16,265,000	-	750,000	15,515,000	770,000
2007	13,010,000	3.6-4.375	2038	12,300,000	-	255,000	12,045,000	265,000
2007	29,220,000	5	2027	28,900,000	-	-	28,900,000	-
2008	62,020,000	3.7-5.07	2036	59,400,000	-	1,335,000	58,065,000	1,000,000
2010	23,975,000	2.0-6.89	2040	23,975,000	-	460,000	23,515,000	470,000
2011	2,720,000	1.53-5.12	2022	-	2,720,000	210,000	2,510,000	220,000
2012	17,150,000	1.75-4	2037	-	17,150,000	-	17,150,000	-
2012	2,575,000	5.6-6.31	2031	-	2,575,000	-	2,575,000	-
<b>Total</b>				<u>155,565,000</u>	<u>22,445,000</u>	<u>11,800,000</u>	<u>166,210,000</u>	<u>6,730,000</u>
<b>Total business-type activities bonds</b>				<u>175,254,093</u>	<u>33,110,000</u>	<u>25,253,935</u>	<u>183,110,158</u>	<u>9,151,753</u>

(continued)

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Unamortized bond premium	\$ 1,393,469	\$ 143,221	\$ 226,429	\$ 1,310,261	\$ -
Unamortized bond discount	(162,906)	(116,110)	(7,412)	(271,604)	-
Unamortized refunding costs	(4,986,699)	(1,185,257)	(550,350)	(5,621,606)	-
Total business-type activities bonds—net	<u>171,497,957</u>	<u>31,951,854</u>	<u>24,922,602</u>	<u>178,527,209</u>	<u>9,151,753</u>
Other noncurrent liabilities:					
Capital lease	-	2,800,000	453,503	2,346,497	689,996
Compensated absences	1,885,742	1,101,036	1,377,058	1,609,720	76,451
Workers' compensation	1,938,296	449,073	558,001	1,829,368	878,852
Other postemployment benefits	12,310,000	6,626,000	2,186,000	16,750,000	-
Accrued derivative liability	3,897,514	1,239,928	-	5,137,442	-
Total	<u>20,031,552</u>	<u>12,216,037</u>	<u>4,574,562</u>	<u>27,673,027</u>	<u>1,645,299</u>
Total noncurrent liabilities—business-type activities	<u>\$ 191,529,509</u>	<u>\$ 44,167,891</u>	<u>\$ 29,497,164</u>	<u>\$ 206,200,236</u>	<u>\$ 10,797,052</u>

The City's debt service requirements for bonds in the aggregate and for each of the five succeeding fiscal years are as follows:

#### Governmental Activities — City of Buffalo, New York

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 24,851,916	\$ 4,748,468	\$ 29,600,384
2014	23,550,149	7,360,295	30,910,444
2015	20,442,504	6,368,041	26,810,545
2016	18,088,554	5,544,246	23,632,800
2017	15,363,445	4,815,653	20,179,098
2018-2022	68,374,281	14,218,600	82,592,881
2023-2026	<u>25,641,587</u>	<u>2,023,916</u>	<u>27,665,503</u>
Total	<u>\$ 196,312,436</u>	<u>\$ 45,079,219</u>	<u>\$ 241,391,655</u>

#### Governmental Activities — Buffalo Fiscal Stability Authority

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 14,535,000	\$ 4,244,397	\$ 18,779,397
2014	13,540,000	3,513,517	17,053,517
2015	14,265,000	2,814,503	17,079,503
2016	8,780,000	2,175,244	10,955,244
2017	7,935,000	1,763,844	9,698,844
2018-2022	27,170,000	3,776,544	30,946,544
2023-2026	<u>5,010,000</u>	<u>249,241</u>	<u>5,259,241</u>
Total	<u>\$ 91,235,000</u>	<u>\$ 18,537,290</u>	<u>\$ 109,772,290</u>

**Issued by City on behalf of Component Unit — Board of Education**

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 12,268,006	\$ 4,966,464	\$ 17,234,470
2014	11,764,371	4,465,053	16,229,424
2015	11,866,083	3,906,803	15,772,886
2016	12,007,360	3,327,824	15,335,184
2017	11,733,000	2,731,757	14,464,757
2018-2022	41,808,000	7,729,903	49,537,903
2023-2027	13,970,000	1,009,229	14,979,229
Total	<u>\$ 115,416,820</u>	<u>\$ 28,137,033</u>	<u>\$ 143,553,853</u>

**Business-Type Activities**

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 9,151,753	\$ 7,493,932	\$ 16,645,685
2014	9,756,137	7,335,228	17,091,365
2015	10,220,852	6,914,859	17,135,711
2016	10,661,797	6,505,553	17,167,350
2017	10,122,152	6,079,878	16,202,030
2018-2022	44,982,467	24,303,730	69,286,197
2023-2027	34,820,000	16,398,109	51,218,109
2028-2032	28,170,000	9,018,670	37,188,670
2033-2037	14,245,000	4,757,015	19,002,015
2038 and thereafter	10,980,000	1,379,472	12,359,472
Total	<u>\$ 183,110,158</u>	<u>\$ 90,186,446</u>	<u>\$ 273,296,604</u>

**Water Authority** — On May 9, 2008, the water system issued \$62,020,000 par revenue bonds to refund \$62,300,000 of previously existing debt. The water system refunded the Series 2005B auction rate security bonds because of the increased costs and uncertainty of the auction rate market and the downgrade of the bond insurer on the issue. The Series 2008A bonds are variable rate demand obligations backed by a direct pay letter of credit.

Of the \$62,020,000 variable bonds issued, \$61,500,000 are hedged by an interest rate swap agreement between the water system and Citibank, N.A, NY (“Swap Provider”) that converts the water system’s variable-rate exposure relating to the Series 2008-A Bonds to a fixed rate. The Swap Provider is an affiliate of the Underwriter and remarketing agent for the Series 2008-A Bonds. Under the terms of the Swap Agreement, the water system will pay the Swap Provider a fixed rate of 3.7% and the Swap Provider will pay the water system a variable rate equal to 70% of one-month LIBOR. The obligation of the Swap Provider to make payments to the system under the Swap Agreement does not affect the water system’s obligation to pay, when due, the principal and interest on the Series 2008-A Bonds. The coupon is reset weekly and paid monthly. The Swap Agreement will expire by its terms on the final maturity of the Series 2005-B Bonds on July 1, 2035. The water system entered into this swap agreement to hedge its interest rate exposure over the life of the bonds.

Upon the occurrence of certain events of default or termination events identified in the Swap Agreement, either the water system or the Swap Provider may terminate the Swap Agreement in accordance with its terms. Such termination will require the payment of a termination amount by one party that attempts to compensate the other party for its economic losses at the time of termination. The water system shall have the right to terminate the swap at par beginning on and after July 1, 2015.

The Swap was deemed effective using the synthetic instrument method. At June 30, 2012, the notional amount of the bonds is \$57,575,000. The amount that the water system received from the Swap Provider (a variable rate payment equal to 70% of one-month LIBOR), \$104,509, exceeded the variable rate paid by the water system (variable rate demand obligation) to the Swap Provider, \$79,625, by \$24,884. The fair value of the SWAP at June 30, 2012 based on quoted market prices is negative \$5,137,442 and is recorded as a derivative liability within the noncurrent liabilities on the Statement of Assets.

*Nittec Loan* — The Niagara International Transportation Technology Coalition and Management Council (NITTEC) provided a \$2,500,000 loan at 2% for 10 years to the City toward the installation of controllers to standardize the signal system and improve traffic flow on designated corridors. The outstanding balance at June 30, 2012, was \$1,311,833. The loan repayment schedule at June 30, 2012, is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 252,080	\$ 26,237	\$ 278,317
2014	257,121	21,195	278,316
2015	262,264	16,053	278,317
2016	267,509	10,807	278,316
2017	272,859	5,457	278,316
Total	<u>\$ 1,311,833</u>	<u>\$ 79,749</u>	<u>\$ 1,391,582</u>

*Capital Leases* — During the year ended June 30, 2012, JP Morgan Chase Bank, N.A. provided a \$2,800,000 lease-purchase agreement at 1.7% for 4 years to the City’s solid waste and recycling fund for the purchase of recycling totes. The outstanding balance at June 30, 2012, was \$2,346,497. Refer to Note 8 for additional information related to the City’s capital leases.

*Compensated Absences* — As described in Note 1, the liability for compensated absences, which totals \$24,689,922 for governmental activities and \$1,609,720 for business-type activities, represents amounts relating to sick and personal leave for employees. Payments of these liabilities are dependent upon many factors (including retirement, termination, or employees leaving service) and, therefore, payments of such are not readily determinable. Typically, the general fund has been used to liquidate this liability within the governmental funds. The City has estimated that \$1,084,746 and \$76,451 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year.

*Workers' Compensation* — Accrued workers' compensation, which totals \$7,651,378 and \$1,829,368 for governmental activities and business-type activities, respectively, represents the City's best estimate of both asserted and unasserted workers' compensation losses. The payments related to these liabilities are dependent upon many factors and, therefore, payments are not readily determinable. The City has estimated that \$2,962,226 and \$878,852 for governmental activities and business-type activities, respectively, will be paid in the next fiscal year. Refer to Note 11 for information related to workers' compensation.

*Landfill Postclosure Monitoring Costs* – In accordance with the Environmental Conservation Law of the State of New York, the City is complying with postclosure monitoring of Squaw Island. The cost of postclosure is based on the percentage of the landfill's total capacity used to date, which is 100%. The City is still required to monitor the site for another 16 years, with an estimated annual cost of \$70,000 - \$100,000 per year. The estimate, which is subject to various changes resulting from inflation, deflation, technology or changes in the applicable laws or regulations, for the outstanding liability at June 30, 2012 was \$1,150,000.

*Other Postemployment Benefits* — Liabilities related to other postemployment benefits include the accrued liability for both medical and firefighters' disability, as discussed in Note 13.

*Judgments and Claims* — The City's judgments and claims liability, which totals \$13,600,000 at June 30, 2012, represent estimated amounts due for various outstanding claims. Payment of these estimated amounts are dependent upon many factors (including outstanding litigation). The City has estimated that \$5,200,000 will be paid in the next fiscal year.

**Debt Contracting Limitation and Unissued Bonds** — The City's debt contracting limitation under its legal debt margin at July 1, 2012, was approximately \$588.6 million. The effective borrowing capacity is \$310.9 million.

The list of the City's authorized and unissued bonds at June 30, 2012, is as follows:

Project	Total Authorized and Unissued
General Improvement Bonds —City of Buffalo	\$ 5,350,000
General Improvement Bonds —Board of Education	<u>820,000</u>
Total	<u>\$ 6,170,000</u>

**Board of Education** — A summary of changes in Board’s long-term liabilities for the year ended June 30, 2012, is as follows:

	Balance July 1, 2011	New issues/ Additions	Maturities/ Reductions	Balance June 30, 2012	Due Within One Year
Governmental activities:					
Due to other governments	\$ 13,833,332	\$ -	\$ 713,332	\$ 13,120,000	\$ 713,334
Revenue bonds payable	22,585,000	-	615,000	21,970,000	650,000
JSCB bonds payable	1,183,170,000	322,100,000	429,805,000	1,075,465,000	46,210,000
Deferred bond premium	99,413,997	47,199,701	43,329,445	103,284,253	-
Compensated absences	21,264,375	7,798,779	7,658,585	21,404,569	7,709,077
Workers' compensation	19,854,163	26,110,210	7,248,818	38,715,555	-
Other long-term debt EPC	2,499,095	-	827,251	1,671,844	839,380
Other postemployment benefits	376,827,000	161,944,000	60,349,000	478,422,000	-
Judgments, claims and contingencies	310,829	-	310,829	-	-
<b>Total</b>	<b><u>\$ 1,739,757,791</u></b>	<b><u>\$ 565,152,690</u></b>	<b><u>\$ 550,857,260</u></b>	<b><u>\$ 1,754,053,221</u></b>	<b><u>\$ 56,121,791</u></b>

**Source of Funding** — Amounts due to other governments, due to City of Buffalo (bond debt), revenue bonds payable, other long-term debt — Energy Performance Contracts (“EPC”), and judgments, claims, and contingencies are repaid through annual appropriation of the Board’s general fund.

*Due to Other Governments* — In June 2000, the State Legislature passed special legislation to advance the Board \$20,000,000 in lottery aid to help pay for litigation settlement with the Buffalo Teachers Federation. In June 2006, the Board received an additional lottery advance of \$1,400,000. The advances are recorded as long-term interest-free loans with annual maturities as follows:

Fiscal Year Ending June 30,	Principal
2013	\$ 713,334
2014	713,334
2015	713,332
2016	713,334
2017	713,334
2018-2022	3,566,666
2023-2027	3,566,666
2028-2032	2,233,334
2033-2036	186,666
	<u>\$ 13,120,000</u>

*Revenue Bonds Payable* — Represents amounts due for Municipal Bond Agency Revenue Bonds issued pursuant to the State of New York Municipal Bond Agency (the “Agency”) Act and a General Resolution and a Series Resolution to provide funds to (i) finance a portion of the cost of settling litigation involving the Board and the Buffalo Teachers Federation (ii) fund the Debt Service Reserve Fund to at least the Debt Service Reserve Fund Requirement and (iii) pay legal, accounting, financing, and other fees and expenses relating to the issuance of the Bonds.

The Bonds are special revenue obligations of the Agency and are secured by Annual Payments payable by the City from all monies legally available (which availability is, in general, dependent upon annual appropriations by the City), and amounts received by the Agency pursuant to the Agency’s statutory right to intercept State School Aid payable to the City and all funds and accounts established by the General Resolution described in the Official Statement.

The remaining annual maturities of revenue bonds payable are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 650,000	\$ 1,146,281	\$ 1,796,281
2014	680,000	1,112,156	1,792,156
2015	715,000	1,076,456	1,791,456
2016	755,000	1,038,919	1,793,919
2017	790,000	1,001,169	1,791,169
2018-2022	4,605,000	4,358,700	8,963,700
2023-2027	5,945,000	3,024,000	8,969,000
2028-2031	7,830,000	1,193,850	9,023,850
Total	<u>\$ 21,970,000</u>	<u>\$ 13,951,531</u>	<u>\$ 35,921,531</u>

*Joint Schools Construction Board Bonds Payable* — Represents bond payments due for the design, construction, and financing of public educational facilities in the City.

On July 1, 2011, the Board issued \$112,590,000 in school facility revenue bonds with an average interest rate of 4.97% to advance refund \$139,445,000 of outstanding school facility revenue bonds with an average interest rate of 5.74%. The net proceeds of \$122,691,675 (after payment of \$1,879,999 in underwriting fees, insurance and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds.

On April 13, 2012, the Board issued \$209,540,000 in school facility revenue bonds with an average interest rate of 4.97% to advance refund \$262,130,000 of outstanding school facility revenue bonds with an average interest rate of 5.74%. The net proceeds of \$240,846,449 (after payment of \$3,621,987 in underwriting fees, insurance and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds.

As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the Board's financial statements. The Board advance refunded the bonds to revise its payment schedules to take advantage of more favorable interest rates. The economic gain (loss) on the transaction (the difference between the present values of the debt service payments on the old and new debt) is approximately \$41,200,000.

The Board defeases bonded debt by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Board's financial statements. As of June 30, 2012, \$299,195,000 of bonds outstanding are considered defeased.

Remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 46,210,000	\$ 56,085,768	\$ 102,295,768
2014	32,095,000	54,009,575	86,104,575
2015	42,355,000	52,407,425	94,762,425
2016	44,515,000	50,289,675	94,804,675
2017	56,345,000	48,063,925	104,408,925
2018-2022	329,485,000	194,047,900	523,532,900
2023-2027	334,370,000	102,401,638	436,771,638
2028-2032	190,090,000	21,080,663	211,170,663
Total	<u>\$1,075,465,000</u>	<u>\$ 578,386,569</u>	<u>\$ 1,653,851,569</u>

*Compensated Absences* — Compensated absences, which totaled \$21,404,569 at June 30, 2012, represent amounts relating to sick and personal leave for employees. Payment of these liabilities is dependent upon many factors (including retirement, termination, or employees leaving service), and, therefore, payment of such is not readily determinable. The Board has estimated that \$7,709,077 will be paid in the next fiscal year.

*Workers' Compensation* — Workers' compensation obligations total \$38,715,555 at June 30, 2012, represent estimated amounts due for various outstanding claims.

*Other Long-Term Debt* — EPC — The other long-term debt represents amounts due for equipment installed at school facilities to improve energy efficiency. Payments totaled \$827,251 during the year leaving a balance of \$1,671,844 at year-end. The remaining annual maturities are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 839,380	\$ 26,567	\$ 865,947
2014	832,464	10,423	842,887
Total	<u>\$ 1,671,844</u>	<u>\$ 36,990</u>	<u>\$ 1,708,834</u>

*Other Postemployment Benefits* — Refer to Note 13.

**Buffalo Urban Renewal Agency** — The summary of changes in long-term liabilities for the year ended June 30, 2012, is as follows:

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Governmental activities:					
Section 108 loans	\$ 9,665,000	\$ -	\$ 1,110,000	\$ 8,555,000	\$ 1,265,000
Other postemployment benefits	<u>7,126,937</u>	<u>2,353,373</u>	<u>-</u>	<u>9,480,310</u>	<u>-</u>
Total	<u>\$ 16,791,937</u>	<u>\$ 2,353,373</u>	<u>\$ 1,110,000</u>	<u>\$ 18,035,310</u>	<u>\$ 1,265,000</u>

*Section 108 Loans* — BURA is indebted to the Federal Financing Bank under promissory notes for advances received under HUD Section 108 Loan Guarantee Program. There are two types of HUD Section 108 programs. Under the first type, promissory notes are payable in 20 annual installments of principal and interest beginning in August 1983. Under the second type, effective on October 30, 1986, interest on promissory notes is payable in 12 semiannual installments, starting with the first February and August after loan issuance. The entire principal amount of the loan is due at the same time as the 12th semiannual interest payment is due. Interest rates vary on each loan and are determined by HUD based on prevailing market rates at the time of loan issuance.

As of June 30, 2012, future maturities of the Section 108 loans are as follows:

Fiscal Year Ending June 30,	
2013	\$ 1,265,000
2014	1,265,000
2015	2,155,000
2016	1,085,000
2017	1,035,000
Thereafter	<u>1,750,000</u>
	8,555,000
Less current portion	<u>(1,265,000)</u>
Total long-term obligations	<u>\$ 7,290,000</u>

*Fannie Mae* — During the year ended June 30, 2006, BURA established a nonrevolving line of credit in the amount of \$6 million with Fannie Mae. Interest is at LIBOR rate, plus 150 basis points. The agreement, along with other stipulations, requires a cash collateral account of \$600,000 and includes a covenant requiring an annual line item with the CDBG program budget in the amount of \$1.2 million for the past four and this year. The annual budget allocations totaling \$6,000,000 are intended to be used to repay the line of credit. The funds have been designated for various revitalization projects in downtown Buffalo and other specified areas of the City. BURA borrowed a total of \$6 million from Fannie Mae, with draws of \$2,000,000 on March 31, 2006 and \$2,000,000 on March 23, 2007. This \$4 million was loaned to private developers. BURA borrowed another \$2 million from Fannie Mae during the fiscal year ended June 30, 2008. These funds are being used for construction financing for a new 24-unit housing development known as Sycamore Village. The first and second annual principal amount of \$1,200,000, plus interest was paid on June 26, 2007 and June 30, 2008, respectively. BURA made a third, fourth and fifth annual principal repayment of \$1,200,000 on March 30, 2009, 2011 and 2012. These funds have been repaid from a combination of proceeds from the sales of the homes and BURA general funds. As of June 30, 2012, eleven market rate homes were completed; and all of the homes were sold. Construction costs in the

amount of \$247,561 for the remaining units are reported as construction in progress in the general fund.

*Other Postemployment Benefits* — Refer to Note 13.

## 10. OPERATING LEASES

Operating lease obligations are primarily for rental of space and equipment. Lease expenditures/expenses for the year were approximately \$312,685. The future minimum rental payments required by the primary government for noncancelable operating leases are as follows:

Fiscal Year Ending June 30,	
2013	\$ 277,502
2014	208,425
2015	<u>89,626</u>
Total	<u>\$ 575,553</u>

**Buffalo Fiscal Stability Authority** — The BFSA leases its office space from a City-related entity under the terms of an operating lease which expired as of May 31, 2012, and continues under a month to month arrangement. Rental expense amounted to \$42,063 for the year ended June 30, 2012.

**Board of Education** — Operating lease obligations are primarily for rental of space and equipment. Lease expenses for the year were approximately \$4,400,773. The future minimum rental payments required for noncancelable leases are as follows:

Fiscal Year Ending June 30,	
2013	\$ 4,044,755
2014	2,939,765
2015	2,428,622
2016	2,324,318
2017	2,416,093
2018-2022	7,306,654
2023-2025	<u>1,129,733</u>
Total	<u>\$ 22,589,940</u>

## 11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance coverage for Coca Cola Field, public employee liability, and data processing equipment. There have been no significant reduction in the levels of this commercial insurance from the prior year, nor have there been any settlements which exceeded insurance coverage for each of the past three fiscal years.

The City is self-insured for general liability risk. The City is self-insured for workers' compensation and has accrued its best estimate of both asserted and unasserted workers' compensation losses. The reserve for workers' compensation is recorded at an estimated percent value using a discount rate of 5%. For the fiscal years ended June 30, 2010, 2011, and 2012, the City incurred expenditures of, \$6,163,280, \$4,505,275 and \$1,676,143, respectively, for property damage and personal injury claims. For the fiscal years ended June 30, 2010, 2011, and 2012, the City expensed \$6,194,389, \$6,211,642 and \$6,855,061, respectively, for workers' compensation claims, including medical payments for fire fighters and police officers. The estimated liabilities for business-type activities are recorded as liabilities of the individual enterprise funds, whereas general liabilities are only recorded in the government-wide financial statements. At June 30, 2012, the City estimated the following general liabilities:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Workers' compensation — fire and police medical	\$ 4,224,605	\$ -
Workers' compensation — other employees	<u>3,426,773</u>	<u>1,829,368</u>
	<u>\$ 7,651,378</u>	<u>\$ 1,829,368</u>

The proprietary-type funds claims and judgments applicable to self-insurance claims are recorded as expenses and liabilities in the appropriate enterprise fund.

Changes in the reported liability in the proprietary fund since June 30, 2010, are shown in the following chart:

	<u>Workers' Compensation</u>
Estimated claims — June 30, 2010	\$ 2,009,150
Claims incurred	306,982
Payments 2010-2011	<u>(377,836)</u>
Estimated claims — June 30, 2011	1,938,296
Claims incurred	449,073
Payments 2011-2012	<u>(558,001)</u>
Estimated claims — June 30, 2012	<u>\$ 1,829,368</u>

The City has estimated claims arising during the ordinary course of its operation which are probable of a future loss to total \$13,600,000 and has been included within the City's liabilities. Additionally, management has identified claims judged to be reasonably possible of a negative impact which are not included within the City's liabilities. Such claims have been estimated to range from \$15,200,000 to \$18,100,000.

**Board of Education:**

*Judgments, Claims, and Contingencies* — Various types of claims have been asserted against the Board by various claimants. Claims probable of resulting in an unfavorable outcome to the Board have been reasonably estimated and recorded as a liability. The claims are in various stages of processing and some may ultimately be brought to trial. Claims are paid and ultimately funded by the fund associated with the loss. For claims not accrued, the ultimate outcome of the suits cannot presently be determined and no provision for loss, if any, has been made in the accompanying financial statements. It is the opinion of management that there will not be any material adverse effects on the Board’s financial statements as a result of these actions.

*State Aid* — The State periodically reviews its distribution of aid to school boards throughout the State. Thus, revenues recorded as of June 30, 2012, are subject to potential revision.

*Health Insurance Litigation* — On September 1, 2005, following a competitive bid process, the Board selected one insurance carrier to provide four health care plans to Board employees — three HMO plans and one traditional indemnity plan. Prior to September 1, 2005, the Board paid three insurance carriers to provide the same four plans. Some of the Board’s unions, including the Buffalo Teachers’ Federation (“BTF”), challenged the Board’s decision to go to a single carrier in arbitration. On October 21, 2006, the arbitrator in the BTF arbitration ruled that the Board must return to multiple carriers effective January 1, 2007, and reinstate all teachers laid off effective September 1, 2005, with “make whole” monetary damages, including back pay and benefits with interest at the statutory judgment rate. The arbitrator also retained jurisdiction to decide any unresolved claims for reimbursement of out-of-pocket expenses incurred by individual teachers under the signed carrier arrangement. The Board appealed the decision and the Appellate Division ruled that while the Board violated the contract in moving to a single carrier for health care, the Board is not required to reinstate all laid off teachers. The BTF moved and the Board cross-moved to appear to the Court of Appeals. The leave to appeal was denied. Subsequently, BTF commenced a contempt proceeding in the Supreme Court, which remains pending. The Court has agreed to several continuances of the return date with the expectation that negotiation of a successor collective bargaining agreement may resolve the health insurance issue. Contract negotiations are continuing.

*Construction Commitment* — As of June 30, 2012, the Board has approximately \$6,845,131 committed to various renovations.

*Grants* — The Board has received grants, which are subject to audit by agencies of the State and federal governments. Such audits may result in disallowances and request for a return of funds. Based on prior years’ experience, the Board’s administration believes disallowances, if any, will be immaterial.

**Buffalo Urban Renewal Agency** — BURA owns the land immediately east of the Waterfront School in the City. BURA fully investigated the land to the satisfaction of the New York State Department of Environmental Conservation (“NYSDEC”) at the cost of approximately \$250,000. A formal agreement with the NYSDEC to accept BURA’s investigation of the site as full settlement for any obligations it has for this site is pending.

BURA is a defendant in litigation commenced by a proposed recipient of Federal HOME funds. This matter was only recently commenced against BURA and has not entered the pre-trial discovery stage. It involves a claim of contract breach and/or detrimental reliance as to BURA related to an alleged promise to provide funding for plaintiff’s project. BURA has taken the position that it is not liable under any theory of liability and will vigorously defend the case and seek dismissal of the action.

BURA is a defendant in litigation commenced by a contractor of the City and BURA related to demolition of structures. This matter is in the early stages of litigation. It involves a claim of contract breach for claimed additional costs incurred by the contractor and not paid by BURA. BURA will take the position that the additional work was not authorized, not documented or included in the base price of the original agreement and, therefore, no damages under the contract have resulted.

BURA is a defendant in a litigation commenced by a hold over tenant of BURA for breach of the original lease terms. This matter was only recently commenced against BURA and has not entered the pre-trial discovery stage. It involves a claim of contract breach and/or detrimental reliance as to BURA related to costs incurred by the tenant during rehabilitation and improvement of the leased premises. BURA has taken the position that it is not liable under any theory of liability and will vigorously defend the case and seek dismissal of the action.

BURA is a defendant in a personal injury matter in which the claimant/infant alleges injury from lead paint at a residence where BURA provided lead paint remediation funds to the owner. The outcome cannot be determined at this early stage of litigation.

## **12. LABOR RELATIONS**

Approximately 2,996 of the City's employees are covered by a total of eight collective bargaining agreements. The operating engineers negotiated a contract through June 30, 2013. The building inspectors negotiated a contract through June 30, 2012. The white-collar, blue collar and crossing guards agreements expired June 30, 2011. The agreements for the firefighters and pipe caulkers expired on June 30, 2004. The police agreement expired on June 30, 2007. All unsettled union contracts are currently being negotiated.

## **13. OTHER POSTEMPLOYMENT BENEFITS**

In adopting the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the City has opted to implement this statement prospectively. GASB Statement No. 45 states that postemployment benefits are part of an exchange of salaries and benefits for employee services rendered, and from an accrual perspective, the cost of OPEB should be recognized when the related services are received by the employer. In conjunction with the implementation of GASB Statement No. 45, the City recognizes the cost of postemployment health care in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the City's future cash flows. Recognition of the health insurance liability accumulated prior to July 1, 2007 will be amortized over 30 years, commencing with the 2008 liability, while the entire liability for firefighters' disability has been recognized.

Plan Description — The City provides continuation of medical insurance coverage to employees that retire under the New York State Retirement Systems at the same time such service is ended, if such employees have been continuously employed by the City for the equivalent of at least 10 years at the date of retirement. Based on collective bargaining agreements, the retiree and/or his beneficiaries receive health care coverage for the life of the retiree. The retiree's share of premium costs depends on the employee group and length of service. Health care benefits for nonunion employees are similar to those of union employees pursuant to City Charter. Additionally, under requirements of state and local law, the City compensates firefighters that retire due to disability before the mandatory retirement age of 70. This compensation is equal to the differential between the retiree's pension and the salary that he/she would receive if still in active service. There is no separate audited GAAP-basis postemployment benefit plan report available. There are currently 125 firefighters that receive such compensation.

The number of participants as of July 1, 2010, the effective date of the biannual OPEB valuation, is as follows. There have been no significant changes in the number of employees covered.

Active employees	2,780
Retired employees	2,778
Spouses of retirees	<u>1,819</u>
Total	<u>7,377</u>

**Funding Policy** — Postemployment benefits are financed on a pay-as-you-go basis, primarily from the general fund for the governmental funds' liability.

**Annual OPEB Benefit Cost** — For the year ended June 30, 2012, the City's annual OPEB cost (expense) is \$112,861,000 while the Annual Required Contribution ("ARC") is \$112,394,000. Considering the annual expense, as well as payment for current health insurance premiums which totaled approximately \$45,742,000 for retirees and their beneficiaries, the result was an increase in the net OPEB obligation of approximately \$67,119,000 for the year ended June 30, 2012.

	Governmental Activities Medical	Governmental Activities Disability	Business-Type Activities	Primary Government
	(000s omitted)			
<b>Annual OPEB Cost and Net OPEB Obligation</b>				
Actuarial accrued liability ("AAL")	\$ 1,526,550	\$ 84,751	\$ 92,918	\$ 1,704,219
Unfunded actuarial accrued liability ("UAAL")	\$ 1,526,550	\$ 84,751	\$ 92,918	\$ 1,704,219
Normal cost — beginning of the year	\$ 41,745	\$ 399	\$ 2,924	\$ 45,068
Amortization factor based on 30 years	26.2	26.2	26.2	26.2
Annual covered payroll	\$ 169,335	\$ 2,611	\$ 13,174	\$ 185,120
UAAL as a percentage of covered payroll	901.5%	3245.9%	705.3%	920.6%
<b>Level Dollar Amortization</b>				
<b>Calculation of ARC Under Projected Unit Credit Method</b>				
ARC normal cost with interest — end of year	\$ 41,745	\$ 399	\$ 2,924	\$ 45,068
UAAL over 30 years with interest — end of year	58,333	3,238	3,550	65,121
Interest	<u>2,002</u>	<u>73</u>	<u>130</u>	<u>2,205</u>
Annual required contribution ("ARC")	102,080	3,710	6,604	112,394
Interest on net OPEB obligation	6,220	3,546	492	10,258
Adjustment to ARC	<u>(5,937)</u>	<u>(3,384)</u>	<u>(470)</u>	<u>(9,791)</u>
Annual OPEB cost (expense)	102,363	3,872	6,626	112,861
Contribution for the year ended June 30, 2012	<u>(37,224)</u>	<u>(6,332)</u>	<u>(2,186)</u>	<u>(45,742)</u>
Increase in net OPEB obligation	65,139	(2,460)	4,440	67,119
Net OPEB obligation — June 30, 2011	<u>155,523</u>	<u>88,667</u>	<u>12,310</u>	<u>256,500</u>
Net OPEB obligation — June 30, 2012	<u>\$ 220,662</u>	<u>\$ 86,207</u>	<u>\$ 16,750</u>	<u>\$ 323,619</u>
Percent of annual OPEB cost contributed	36%	164%	33%	41%

**Funded Status and Funding Progress** — As of July 1, 2010, the most recent actuarial valuation date, the OPEB plan was unfunded, resulting in an unfunded accrued liability of \$1,637,159,000.

The City's schedule of funding progress for the most recent three actuarial valuations is presented below:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
(000s omitted)						
As of July 1, 2006	\$ -	\$ 945,599	\$ 945,599	-	\$ 171,120	5.53
As of July 1, 2008	-	1,227,967	1,227,967	-	179,288	6.85
As of July 1, 2010	-	1,637,159	1,637,159	-	185,120	8.84

The schedule of the City's contributions for the three most recent fiscal years is shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
(000s omitted)				
2010	\$ 81,682	\$ 43,971	53.8%	\$ 190,928
2011	108,212	42,640	39.4%	256,500
2012	112,861	45,742	40.5%	323,619

**Actuarial Methods and Assumptions** — Projections of benefits for financial reporting purposes are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) and on the historical pattern of cost sharing between the employer and plan members at that point. The actuarial methods and assumption used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations. Included coverage plans are "experience-rated" and annual premiums for experience-rated coverage plans were used as a proxy for claims costs with age adjustment for pre-65 and post-65 participants. The unfunded actuarial accrued liability is being amortized on a closed amortization basis over 30 years on a level percentage of pay. Retiree contributions were assumed to increase in the future in accordance with the assumed increases in pre-65 medical costs.

In the July 1, 2010 actuarial valuation, the liability was computed using the projected unit credit method. The actuarial assumptions utilized a 4% investment rate of return for both governmental and business-type activities. The rate is based on the projected long-term earning rate of the assets expected to be available-to-pay benefits. The payroll growth for total payroll is assumed to be 3%, for fire base salary, 2.25%. The valuation assumes health care cost inflation trends as follows: both pre-65 and post-65 medical and prescriptions, 8.0%; all reduced by decrements to reach a rate of 4.7% in 2082.

**Medical Reimbursements** — The City's Medicare Part D prescription drug subsidy, which reduces the cost of retiree health care premiums, is accrued as revenue only in the current year. Projected subsidies for future years cannot be recognized as a reduction to the actuarial accrued liabilities.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Buffalo Fiscal Stability Authority:**

**Postemployment Healthcare Benefits** — The BFSA maintains a single-employer defined benefit healthcare plan ( the “Plan”) providing for lifetime cost sharing of medical, dental, and vision premiums to eligible retirees and spouses.

The Plan does not issue a publicly available financial report. Eligibility is based on covered employees who retire from the BFSA over age 55 and with ten or more years of service. The required contribution is based on projected pay-as-you-go financing requirements, with no current funding of actuarially determined liabilities. For the year ended June 30, 2012 there were no retirees of the BFSA receiving benefits.

The BFSA’s annual OPEB expense is calculated based on the annual required contribution of the BFSA. The BFSA has elected to calculate the ARC and related information using the projected unit credit cost method permitted by GASB. The ARC represents a level funding that, if paid on an ongoing basis, is protected to cover the normal cost each year and to amortize the unfunded actuarial liability over 30 years.

The following table summarizes the BFSA’s annual OPEB for the year ended June 30, 2012.

<b>Annual OPEB Cost and Net OPEB Obligation</b>		(000s omitted)
ARC normal cost with interest — end of year		\$ 64
UAAL over 30 years with interest — end of year		12
Interest		<u>12</u>
Annual required contribution (ARC)		88
ARC adjustment		(31)
Contribution for the year ended June 30, 2012		<u>-</u>
Increase in net OPEB obligation		57
Net OPEB obligation —June 30, 2011		<u>314</u>
Net OPEB obligation —June 30, 2012		<u>\$ 371</u>

The BFSA’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for the past three years are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
(000s omitted)			
2012	\$ 57	0.0%	\$ 371
2011	35	0.0%	314
2010	98	0.0%	280

As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for future benefits was \$116,194, all of which is unfunded. The annual payroll of employees eligible to be covered by the Plan was \$319,377, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 36%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and ARC of the BFSA are subject to continual revision as actual results compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the BFSA and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the BFSA and Plan members. The methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with long-term perspective of the calculations. The following assumptions were made:

*Retirement age for active employees* – assumed employees will not retire before age 62 and ten years of service.

*Marital status* – Assumed 100% of future retirees will be married, with male spouses assumed to be three years older than female spouses.

*Mortality* – RP2000, mortality table for males and females projected 10 years.

*Turnover* – Standard turnover assumptions – GASB 45 Paragraph 35b.

*Payroll growth* – A 4% growth rate was used.

*Healthcare cost trend rate* – The expected rate of increase in healthcare premiums was based on projections developed by the actuary's healthcare specialists. An initial inflation rate of 8%, reduced to an ultimate rate of 4.7% after ten years was used. Vision and dental plans were based on a 3.5% rate reduced to 3% after year 2, and the dental plan was based on a rate of 3%.

*Health insurance premiums* – 2012 health insurance premiums were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the BFSA's general assets, a discount rate of 4.0% was used. The level percentage of projected payroll of active plan member's method is used to amortize the unfunded actuarial liability.

#### **Board of Education:**

**Plan Description** —The Board administers the Board of Education, City of Buffalo, New York's Retiree Medical and Prescriptions Drug (the "Board's Plan") as a single-employer defined benefit other postemployment benefits plan ("OPEB"). The Board's Plan provides for the continuation of medical insurance benefits for certain retirees and their spouses and can be amended by action of the Board subject to applicable collective bargaining and employment agreements. The Board's Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose for paying benefits under the Board's Plan.

**Funding Policy** — The obligations of the plan members, employers, and other entities are established by action of the Board pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members, varies depending on the applicable agreement. The Board currently contributes enough money to the plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Board’s Plan are paid by the Board.

**Accounting Policy** — The accrual basis of accounting is used. The fair market value of assets, if any, is determined by the market value of assets, if any, and paid by a willing buyer or a willing seller.

**Annual OPEB Costs and Net OPEB Obligation** — The Board’s OPEB cost (expense) is calculated based on the annual required contribution of the employer. The Board has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45 for employers in plans with more than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The components of the Board’s annual OPEB cost for the year, the amount actually contributed to the Board’s Plan, and the Board’s net OPEB obligation to the Board’s Plan at June 30, 2012, are as follows:

<b>Annual OPEB Cost</b>	(000's omitted)
Normal cost	\$ 61,242
Amortization of UAL	100,934
Interest	<u>6,487</u>
Annual required contribution (ARC)	168,663
Interest on net OPEB obligation	15,073
Adjustment to ARC	<u>(21,792)</u>
Annual OPEB cost (expense)	161,944
Contribution for the year ended June 30, 2012	<u>(60,349)</u>
Increase in net OPEB obligation	101,595
Net OPEB obligation — June 30, 2011	<u>376,827</u>
Net OPEB obligation — June 30, 2012	<u>\$ 478,422</u>
Percent of annual OPEB cost contributed	37.3%

**Funded Status and Funding Progress** — As of June 30, 2012, the accrued liability for benefits was \$1,815,174,000, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$277,774,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 653%. The total post employment health insurance cost to the Board was \$60,349,000 for the year ended June 30, 2012.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented on the following page, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	Ratio of UAAL to Budget Covered Payroll
(000s omitted)						
As of June 30, 2009	\$ -	\$ 1,264,733	\$ 1,264,733	0%	n/a	n/a
As of June 30, 2011	-	1,681,374	1,227,967	0%	276,562	608%
As of June 30, 2012	-	1,815,174	1,815,174	0%	277,774	653%

The Board's contributions for the three most recent fiscal years are shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
(000s omitted)				
2010	\$ 124,228	\$ 51,422	41.4%	\$ 281,185
2011	153,898	58,256	37.9%	376,827
2012	161,944	60,349	37.3%	478,422

**Methods and Assumptions** — Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided and the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members up to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following assumptions were made:

The June 30, 2012 actuarial valuation utilized the projected unit cost method. The actuarial assumptions include a 4% investment rate of return (net of administrative expenses), which is the expected short-term investment rate of the Board's own assets since currently the plan has no assets at the valuation date in order to establish a plan investment rate. The assumed rate for all pre-65 healthcare benefits is initially at 9.0% and decreases to a 5% long-term trend rate after ten years. For all post-65 healthcare benefits this rate initially is at 7.5% and decreases to a 5% long-term trend rate after seven years. Both rates include a 3% inflation assumption. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The amortization period at June 30, 2012 was 27 years.

**Buffalo Urban Renewal Agency:**

**Plan Description** — BURA provides continuation of medical insurance coverage to employees that retire under the New York Retirement Systems at the same time they end their service to BURA. Based on the collective bargaining agreement, the retiree and his or her beneficiaries receive this coverage for the life of the retiree. Healthcare benefits for nonunion employees are similar to those of union employees. The retiree's share of premium cost range from 0% to 25%, depending on the employee length of service.

The number of participants as of June 30, 2012, was as follows:

Active employees	55
Retired employees	39
Spouses of retired employees	16
	<u>110</u>

**Funding Policy** — BURA currently pays for postemployment health insurance care benefits on a pay-as-you-go basis. Although BURA is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

**Annual Other Postemployment Benefit Cost** — For the fiscal year ended June 30, 2012, BURA’s annual OPEB cost of \$2,735,088 and the Annual Required Contribution is \$2,911,121. The payment of current health insurance premiums, which totaled \$376,850 for retirees and their beneficiaries, resulted in a net OPEB cost of \$9,480,310 for the year ended June 30, 2012.

**Annual OPEB Cost and Net OPEB Obligation** — BURA’s annual OPEB cost is calculated based on the ARC of the employer. BURA has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (of funding excess) over a period not to exceed 30 years. The components of BURA’s annual OPEB cost for the year, the amount actually contributed to the plan and changes in BURA’s net OPEB obligation to the Retiree Health Plan at June 30, 2012, are as follows:

	(000's omitted)
Annual required contribution — including interest	\$ 2,911
Contributions made	<u>(558)</u>
Increase in net OPEB obligation	2,353
Net OPEB obligation — beginning of year	<u>7,127</u>
Net OPEB obligation — end of year	<u><u>\$ 9,480</u></u>

BURA is required to report the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year June 30, 2012 and the two preceding fiscal years.

Year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$2,028,394	18.89%	\$4,710,599
2011	2,735,088	14.00%	7,126,937
2012	2,735,088	20.39%	9,480,310

**Funded Status and Funding Progress** — As of June 30, 2012, the actuarial accrued liability for benefits was \$28,717,970, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$2,960,142, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 970%.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear

trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities of benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2010	\$ -	\$ 25,032,240	\$ 25,032,240	0%	\$ 2,285,350	1095.34%
6/30/2011	-	28,717,970	28,717,970	0%	2,820,508	1018.18%
6/30/2012	-	28,717,970	28,717,970	0%	2,960,142	970.16%

**Methods and Assumptions** — Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following simplifying assumptions were made:

*Retirement Age for Active Employees* — Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or at the first subsequent year in which the member would qualify for benefits.

*Marital Status* — Marital status of members at the calculation date were assumed to continue throughout retirement.

*Mortality* — Life expectancies were based on the RP 2000 Mortality Life Tables for males and for females.

*Turnover* — Nongroup-specific-age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employees until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

*Health Care Cost Trend Rate* — The expected rate of increase in healthcare insurance premiums was based on projections of the Health and Human Services Office of the Actuary. A rate of 9 percent initially, reduced to an ultimate rate of 4.7 percent after six years, was used.

*Health Insurance Premiums* — The June 30, 2011, health insurance premiums for retirees were used as the basis for the calculation of the present value of total benefits to be paid.

*Inflation Rate* — The expected long-term inflation assumption of 3 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability insurance Trust Funds for an intermediate growth scenario.

*Payroll Growth Rate* — The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of BURA's short-term investment portfolio, a discount rate of 4.9% was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 26 years.

#### 14. EMPLOYEE RETIREMENT BENEFITS

**Plan Description** — The City participates in the Employee Retirement System (“ERS”), the State and Local Police and Fire Retirement System (“PFRS”), and the Public Employees’ Group Life Insurance Plan (the “Systems”). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits, as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (“NYSRSSL”). As set forth in the NYSRSSL, the Comptroller of the State of New York (“Comptroller”) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

**Funding Policy** — The Systems are noncontributory except for employees who joined the ERS after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute 3.5% of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the Systems’ fiscal year ending March 31.

The City is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were as follows:

	ERS	PFRS
2012	\$ 9,541,431	\$ 22,218,546
2011	6,862,458	21,030,167
2010	4,473,359	19,155,816

The City’s contributions made to the Systems were equal to 100% of the contributions required for each year.

The BFSAs made 100% of its required contributions for the year ended June 30, 2012, which amounted to \$47,692, and is not included in the table above.

#### **Board of Education:**

The Board participates in the ERS and the Teachers’ Retirement System (“TRS”).

Teachers’ Retirement System:

**Plan Description** — The Board makes contributions to the TRS, a cost-sharing, multiple employer-defined benefit pension plan administered by the State Teachers’ Retirement Board. The TRS provides retirement, disability, withdrawal, and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State. The TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the State Teachers’ Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

**Funding Policy** — Plan members who joined the System before July 27, 1976, are not required to make contributions. Those joining after July 27, 1976 are required to contribute 3.0% to 3.5% of their annual salary. Employees in the system more than ten years are no longer required to contribute. Employers are required to contribute at an actuarially determined rate.

Employee Retirement System:

**Plan Description** — The ERS provides retirement benefits, as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the NYSRSSL. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**Funding Policy** — Plan members who joined the System before July 27, 1976, are not required to make contributions. Those joining after July 27, 1976 are required to contribute 3.0% to 3.5% of their annual salary. With the exception of ERS Tier V and VI employees, employees in the system more than ten years are no longer required to contribute. In addition, employees contribution rates under ERS Tier VI vary based on a sliding salary scale. The Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulated fund.

The Board’s required contributions to the Systems for the current and preceding two years are as follows:

	<u>TRS</u>	<u>ERS</u>
2012	\$ 33,198,819	\$ 7,129,235
2011	17,683,274	4,483,867
2010	21,196,134	2,391,143

The Board’s contributions made to the Systems were equal to 100% of the contributions required for each year.

**Buffalo Urban Renewal Agency:**

BURA also participates in the ERS. The payroll for all employees covered by the System for the year ended June 30, 2012, was \$2,960,142. All full-time BURA employees at June 30, 2012, were covered by the pension plan.

BURA’s required contributions for the current and preceding two years are as follows:

	<u>ERS</u>
2012	\$ 503,727
2011	250,946
2010	250,946

## 15. NET ASSETS AND FUND BALANCES

The government wide financial statements utilize a net assets presentation. Net Assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- ◆ ***Investment in Capital Assets, Net of Related Debt*** — This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Capital assets, net of accumulated depreciation		\$ 417,068,603
Related debt:		
Serial bonds issued	\$ (219,473,180)	
Unspent proceeds from serial bonds	<u>76,917,131</u>	
Debt issued for capital assets		(142,556,049)
Deferred financing costs		8,346,025
Unamortized premiums		(11,267,407)
Nittec loan		(1,311,833)
Capital leases		<u>(1,379,876)</u>
Investment in capital assets, net of related debt		<u>\$ 268,899,463</u>

- ◆ ***Restricted Net Assets*** — This category presents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ◆ ***Unrestricted Net Assets*** — This category represents net assets of the City not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balances maintained by the City at June 30, 2012 include:

Real estate held for sale	\$ 7,233,607
Long-term receivable	14,723,456
Prepaid items	941,296
Permanent fund - corpus	<u>30,000</u>
Total	<u>\$ 22,928,359</u>

*Real Estate Held for Sale* – This amount represents real estate acquired for resale.

*Long-term Receivable* – Represents a long-term receivable from the Solid Waste and Refuse Fund for operating losses incurred in the fund since its inception.

*Prepaid Items* – Represents amounts prepaid to vendors and employees that are applicable to future accounting periods.

*Permanent Fund – Corpus* – Represents the amount of principal that is nonspendable due to specific purposes stipulated in the respective bequest and trust agreements.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balances of the City at June 30, 2012 include:

Restricted for:	
Capital projects	\$ 76,917,131
Capital outlay	2,555,946
Debt service	28,015,445
Grants	1,610,671
State mandated initiatives	14,645,657
Emergency medical services	1,315,437
Permanent fund - interest	<u>109,685</u>
Total	<u>\$ 125,169,972</u>

*Capital Projects* – Represents funds that have been reserved to fund future capital projects and the purchase of capital assets. This amount includes commitments for the expenditures of monies within the capital projects fund.

Within the fund balance restricted for capital projects, certain funds (\$21,402,898) have been restricted to fund future contractually obligated capital projects and the purchase of certain capital assets (encumbrances). The City considers encumbrances to be significant for amounts that are encumbered in excess of \$500,000.

As of June 30, 2012, the capital projects fund reported the following significant encumbrances:

Description	Amount
Reconstruction of streets	\$ 3,438,121
Construction recreational basin	1,814,766
Emergency radio system upgrade	1,604,153
Purchase of fire fighting apparatus	1,561,299
Reconstruction of building	<u>1,408,000</u>
Total	<u>\$ 9,826,339</u>

*Capital Outlay* – This category represents amounts set aside for future departmental capital expenditures.

*Debt Service* – Represents funds to be used toward the future repayment of bonded debt.

*Grants* – This category includes federal and state monies that have been restricted as they can only be used for specific purposes as authorized by grantor agencies. This amount includes \$1,610,671 which is restricted by commitments for the expenditure of money within the special revenue fund.

*State Mandated Initiatives* – Represents money provided by the State through aid and incentives for municipality that is held by the BFSA on behalf of the City. At June 30, 2012, \$14,645,657 of fund balance was restricted for state aid that did not meet the BFSA special revenue fund revenue recognition criteria.

*Emergency Medical Services* – Represents funds that have been restricted as they can only be used for specific purposes as outlined within emergency ambulance service agreement.

*Permanent Fund – Interest* - Represents the amount of interest earnings on the nonspendable principal, that is reserved to be used for specific purposes stipulated in the respective bequest and trust agreements.

Commitments are amounts that are subject to a purpose constraint imposed by a formal action of the City’s highest level of decision-making authority. The City’s policy requires commitments to be adopted through formal action of the Common Council. As of June 30, 2012, the City reported the following commitment:

*Economic Stabilization* – Represents a minimum of 30 days of the prior fiscal year’s total general fund operating expenditures. If during a fiscal year, the City has extraordinary operating or capital needs that could not be anticipated and cannot be funded with current budget resources, the City may use its Rainy Day Fund. At June 30, 2012, the City reported \$35,739,945 within its Rainy Day Fund.

The Common Council authorizes the Comptroller to make a determination of the assigned amounts of fund balance. Assigned funds represent amounts intended to be used for a specific purpose. For example the amount appropriated to reduce the tax levy as determined through the budget process and finalized when the tax rates are established would be considered assigned fund balance. In the fund financial statements, assignments by the City at June 30, 2012 include:

Assigned to:	
Encumbrances	\$ 4,216,833
Motor vehicle self-insurance	447,817
Subsequent year's expenditures	11,522,772
Judgments and claims	13,600,000
BFSA special revenue	<u>1,462,501</u>
Total	<u>\$ 31,249,923</u>

*Encumbrances* – Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of monies are recorded, is employed as part of the City’s budgetary control mechanism for all funds. Unencumbered appropriations lapse at fiscal year end. The City considers encumbrances to be significant for amounts that are encumbered in excess of \$500,000. As of June 30, 2012, the general fund reported no significant encumbrances.

*Motor Vehicle Self-Insurance* – Represents fund balance set aside for motor vehicle self-insurance.

*Subsequent Year’s Expenditures* – Represents available fund balance being appropriated to meet expenditure requirements in the 2012-2013 fiscal year.

*Judgments and Claims* – Represents amounts assigned to cover the settlement of various claims and litigation.

*BFSA Special Revenue* – Represents fund balance within the BFSA special revenue fund that is assigned for a specific purpose.

If the City must use funds for emergency expenditures the Common Council shall authorize the Comptroller to expend funds first from funds classified under GASB 54 as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB 54 will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available the City will use unassigned fund balance.

## **16. NET ASSETS DEFICIT**

The solid waste and recycling enterprise fund has a total net deficit of \$22,756,072 at June 30, 2012. Although the City anticipates the deficit to be remedied by future rate increase or through general fund subsidies, no formal plan exists.

The Board has a total net deficit of \$265,966,838 at June 30, 2012 which is caused primarily by its recognition of long-term liabilities including other postemployment benefits.

## **17. SUBSEQUENT EVENTS**

On September 6, 2012, the City of Buffalo issued \$31,745,000 of Board of Education refunding bonds for debt issued through the Dormitory Authority of the State of New York. The bonds are being issued to refund the \$33,025,000 aggregate outstanding principal amount of the City's Refunding School Serial Bonds 2002D, 2002E, 2002F and 2002G, originally issued on November 26, 2002. Principal payments begin on December 1, 2012 and mature in 2024.

On September 21, 2012, the City of Buffalo issued \$13,860,000 of Board of Education refunding revenue bonds through the State of New York Municipal Bond Bank Agency. The bonds are being issued to refund the \$21,970,000 aggregate outstanding principal amount of the Special Program (City of Buffalo) Revenue Bonds, 2001A-Series originally issued on May 31, 2001. Principal payments begin on May 1, 2014 and mature in 2031.

BURA is in the process of entering into formal subrecipient agreements with the City as a result of a mandate issued by the U. S. Department of Housing and Urban Development ("HUD"), which requires entitlement funds be received directly by the City for the 2012 federal grant year. The 2012 federal grant year began May 1, 2012. The subrecipient agreements are contracts with the City which allows BURA to administer and provide program delivery services for CDBG and Home projects.

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## SUPPLEMENTAL SCHEDULES



**CITY OF BUFFALO, NEW YORK**  
**Schedule of Revenues, Expenditures, and Changes in Fund**  
**Balances—Budget and Actual (Non-GAAP Budgetary Basis)—Debt Service Fund**  
**Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Budgetary Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental charges	\$17,191,993	\$17,191,993	\$ 17,303,519	\$ 111,526
Investment interest	503,415	503,415	325,565	(177,850)
License, permit, rentals, fines, and other service charges	139,745	139,745	66,366	(73,379)
Miscellaneous	<u>2,096</u>	<u>2,096</u>	<u>24,222</u>	<u>22,126</u>
Total revenues	<u>17,837,249</u>	<u>17,837,249</u>	<u>17,719,672</u>	<u>(117,577)</u>
<b>EXPENDITURES</b>				
Debt service:				
Principal	35,879,230	35,879,230	25,753,000	10,126,230
Interest and fiscal charges	<u>14,839,198</u>	<u>14,836,248</u>	<u>9,831,765</u>	<u>5,004,483</u>
Total expenditures	<u>50,718,428</u>	<u>50,715,478</u>	<u>35,584,765</u>	<u>15,130,713</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(32,881,179)</u>	<u>(32,878,229)</u>	<u>(17,865,093)</u>	<u>15,013,136</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	32,388,876	32,388,876	33,426,258	261,692
Transfers out	-	-	(14,907,754)	(16,567,973)
Proceeds of debt issuance	-	-	29,810,000	34,650,000
Premium on bonds	-	-	1,021,257	1,788,678
Payment to escrow agent	<u>-</u>	<u>2,950</u>	<u>(32,109,752)</u>	<u>(36,421,968)</u>
Total other financing sources (uses)	<u>32,388,876</u>	<u>32,391,826</u>	<u>17,240,009</u>	<u>(15,151,817)</u>
Net change in fund balances	(492,303)	(486,403)	(625,084)	(138,681)
Fund balances—beginning	<u>4,129,273</u>	<u>4,129,273</u>	<u>4,129,273</u>	<u>-</u>
Fund balances—ending	<u>\$ 3,636,970</u>	<u>\$ 3,642,870</u>	<u>\$ 3,504,189</u>	<u>\$ (138,681)</u>

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# NONMAJOR GOVERNMENTAL FUNDS

## SPECIAL REVENUE FUND

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Federal and State Grant Fund — This fund is used to account for all the special Federal and State grants that are restricted for noncapital purposes by the grant award.

## BFSA DEBT SERVICE FUND

Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Buffalo Fiscal Stability Authority Debt Service Fund — This fund is used to account for debt issued by the BFSA.

## PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Forsyth Park Permanent Fund — This fund is used to purchase objects to enhance the beauty of the Park System in the City of Buffalo.



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**CITY OF BUFFALO, NEW YORK**  
**Combining Balance Sheet—**  
**Other Governmental Funds**  
**June 30, 2012**

	<b>Special Revenue Fund</b>	<b>BFSA Debt Service Fund</b>	<b>Permanent Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,167,255	\$ -	\$ -	\$ 2,167,255
Investments	-	17,002,340	61,472	17,063,812
Receivables				
Other receivables	-	-	3,137	3,137
Due from other funds	14,114	-	-	14,114
Due from other governments	1,286,658	-	-	1,286,658
Restricted cash and cash equivalents	<u>1,610,671</u>	<u>2,347</u>	<u>75,076</u>	<u>1,688,094</u>
Total assets	<u>\$ 5,078,698</u>	<u>\$ 17,004,687</u>	<u>\$ 139,685</u>	<u>\$ 22,223,070</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 1,241,930	\$ -	\$ -	\$ 1,241,930
Due to other funds	2,121,344	171,779	-	2,293,123
Due to component units	92,989	-	-	92,989
Accrued liabilities	-	1,486,652	-	1,486,652
Retainages payable	<u>11,764</u>	<u>-</u>	<u>-</u>	<u>11,764</u>
Total liabilities	<u>3,468,027</u>	<u>1,658,431</u>	<u>-</u>	<u>5,126,458</u>
Fund balances:				
Nonspendable	-	-	30,000	30,000
Restricted	<u>1,610,671</u>	<u>15,346,256</u>	<u>109,685</u>	<u>17,066,612</u>
Total fund balances	<u>1,610,671</u>	<u>15,346,256</u>	<u>139,685</u>	<u>17,096,612</u>
Total liabilities and fund balances	<u>\$ 5,078,698</u>	<u>\$ 17,004,687</u>	<u>\$ 139,685</u>	<u>\$ 22,223,070</u>

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—**  
**Other Governmental Funds**  
**Year Ended June 30, 2012**

	<b>Special Revenue Fund</b>	<b>BFSA Debt Service Fund</b>	<b>Permanent Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>REVENUES</b>				
Intergovernmental	\$ 5,942,839	\$ -	\$ -	\$ 5,942,839
Investment interest	2,215	645,057	923	648,195
Miscellaneous	106,084	-	-	106,084
Total revenues	<u>6,051,138</u>	<u>645,057</u>	<u>923</u>	<u>6,697,118</u>
<b>EXPENDITURES</b>				
Current:				
General government support	1,412,104	-	-	1,412,104
Public safety	4,164,410	-	-	4,164,410
Streets and sanitation	63,726	-	-	63,726
Economic assistance and opportunity	1,192,030	-	-	1,192,030
Culture and recreation	4,130	-	-	4,130
Health and community services	11,641	-	-	11,641
Debt service:				
Principal	-	15,525,000	-	15,525,000
Interest and fiscal charges	-	4,547,645	-	4,547,645
Total expenditures	<u>6,848,041</u>	<u>20,072,645</u>	<u>-</u>	<u>26,920,686</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(796,903)</u>	<u>(19,427,588)</u>	<u>923</u>	<u>(20,223,568)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>238,153</u>	<u>18,283,916</u>	<u>-</u>	<u>18,522,069</u>
Total other financing sources	<u>238,153</u>	<u>18,283,916</u>	<u>-</u>	<u>18,522,069</u>
Net change in fund balances	(558,750)	(1,143,672)	923	(1,701,499)
Fund balances—beginning	<u>2,169,421</u>	<u>16,489,928</u>	<u>138,762</u>	<u>18,798,111</u>
Fund balances—ending	<u>\$ 1,610,671</u>	<u>\$ 15,346,256</u>	<u>\$ 139,685</u>	<u>\$ 17,096,612</u>

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## WATER SYSTEM

The Water System is used to account for the City's water treatment and distribution system and is responsible for water delivery to the residents of the City. The Water System is comprised of the Water Board, Water Authority and Water Enterprise.



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**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Fund Net Assets—**  
**Water System**  
**June 30, 2012**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 32,045,755	\$ 224,827	\$ 142,941	\$ -	\$ 32,413,523
Receivables:					
Accounts receivable	17,145,798	-	9,048	-	17,154,846
Other receivables	808,106	-	-	-	808,106
Due from other agencies	127,425	-	-	-	127,425
Due from other funds	-	119,536,160	12,571,430	(132,107,590)	-
Due from other governments	477,578	243,994	-	-	721,572
Allowance for uncollectibles	(13,927,033)	-	-	-	(13,927,033)
Net receivables	<u>4,631,874</u>	<u>119,780,154</u>	<u>12,580,478</u>	<u>(132,107,590)</u>	<u>4,884,916</u>
Total current assets	<u>36,677,629</u>	<u>120,004,981</u>	<u>12,723,419</u>	<u>(132,107,590)</u>	<u>37,298,439</u>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	-	45,326,058	-	-	45,326,058
Capital assets not being depreciated:					
Land	145,116	-	-	-	145,116
Construction in progress	866,148	-	-	-	866,148
Capital assets being depreciated:					
Buildings and system	187,411,452	-	-	-	187,411,452
Improvements other than buildings	252,393	-	-	-	252,393
Machinery and equipment	554,249	-	-	-	554,249
Accumulated depreciation	(59,949,509)	-	-	-	(59,949,509)
Total capital assets being depreciated	128,268,585	-	-	-	128,268,585
Deferred outflows of resources	5,137,442	-	-	-	5,137,442
Deferred financing costs, net	2,704,438	-	2,407	-	2,706,845
Total noncurrent assets	<u>137,121,729</u>	<u>45,326,058</u>	<u>2,407</u>	<u>-</u>	<u>182,450,194</u>
Total assets	<u>\$ 173,799,358</u>	<u>\$ 165,331,039</u>	<u>\$ 12,725,826</u>	<u>\$(132,107,590)</u>	<u>\$219,748,633</u>
<b>LIABILITIES AND NET ASSETS</b>					
Current liabilities:					
Accounts payable	\$ 797,065	\$ 35,578	\$ 64,554	\$ -	\$ 897,197
Due to other funds	132,300,935	-	388,649	(132,107,590)	581,994
Other accrued liabilities	-	3,077,518	1,152,275	-	4,229,793
Retainages payable	648,116	-	-	-	648,116
Deferred revenues	-	-	264,769	-	264,769
Due to retirement systems	-	-	239,593	-	239,593
Accrued compensated absences	-	-	44,561	-	44,561
Accrued workers' compensation	-	-	210,768	-	210,768
General obligation and revenue bonds payable within one year	-	6,730,000	271,753	-	7,001,753
Total current liabilities	<u>133,746,116</u>	<u>9,843,096</u>	<u>2,636,922</u>	<u>(132,107,590)</u>	<u>14,118,544</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Fund Net Assets—**  
**Water System**  
**June 30, 2012**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
Noncurrent liabilities:					
Accrued compensated absences	-	-	761,413	-	761,413
Accrued workers' compensation	-	-	417,510	-	417,510
Accrued post employment benefits	-	-	7,619,000	-	7,619,000
Accrued derivative liability	5,137,442	-	-	-	5,137,442
General obligation bonds payable	-	-	1,290,981	-	1,290,981
Revenue bonds payable	-	155,487,943	-	-	155,487,943
Total noncurrent liabilities	<u>5,137,442</u>	<u>155,487,943</u>	<u>10,088,904</u>	<u>-</u>	<u>170,714,289</u>
Total liabilities	<u>138,883,558</u>	<u>165,331,039</u>	<u>12,725,826</u>	<u>(132,107,590)</u>	<u>184,832,833</u>
Net assets:					
Invested in capital assets, net of related debt	13,893,355	-	-	-	13,893,355
Unrestricted	<u>21,022,445</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,022,445</u>
Total net assets	<u>34,915,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,915,800</u>
Total liabilities and net assets	<u>\$ 173,799,358</u>	<u>\$ 165,331,039</u>	<u>\$ 12,725,826</u>	<u>\$(132,107,590)</u>	<u>\$219,748,633</u>

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**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets—**  
**Water System**  
**Year Ended June 30, 2012**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Eliminations</u>	<u>Total Water System</u>
Operating revenues:					
Charges for services	\$ 40,212,867	\$ -	\$ -	\$ -	\$ 40,212,867
Other	110,899	-	-	-	110,899
Total operating revenues	<u>40,323,766</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,323,766</u>
Operating expenses:					
Services and supplies	8,121,871	611,236	6,147,147	-	14,880,254
Depreciation	4,372,760	-	-	-	4,372,760
Fringe benefits	-	-	5,863,821	-	5,863,821
Other	-	-	53,569	-	53,569
Total operating expenses	<u>12,494,631</u>	<u>611,236</u>	<u>12,064,537</u>	<u>-</u>	<u>25,170,404</u>
Operating income (loss)	<u>27,829,135</u>	<u>(611,236)</u>	<u>(12,064,537)</u>	<u>-</u>	<u>15,153,362</u>
Nonoperating revenues (expenses):					
Interest earnings	396,744	-	31,426	-	428,170
Interest expense	(6,726,016)	-	-	-	(6,726,016)
Other	477,578	-	-	-	477,578
Total nonoperating revenues (expenses)	<u>(5,851,694)</u>	<u>-</u>	<u>31,426</u>	<u>-</u>	<u>(5,820,268)</u>
Income (loss) before transfers	21,977,441	(611,236)	(12,033,111)	-	9,333,094
Transfers in	-	611,236	12,033,111	(12,644,347)	-
Transfers out	<u>(17,548,793)</u>	<u>-</u>	<u>-</u>	<u>12,644,347</u>	<u>(4,904,446)</u>
Change in net assets	<u>4,428,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,428,648</u>
Total net assets—beginning, as previously stated	26,589,638	-	-	-	26,589,638
Restatement	<u>3,897,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,897,514</u>
Total net assets—beginning, as restated	<u>30,487,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,487,152</u>
Total net assets—ending	<u>\$ 34,915,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,915,800</u>

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Cash Flows—**  
**Water System**  
**Year Ended June 30, 2012**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Total Water System</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 40,488,075	\$ -	\$ -	\$ 40,488,075
Payments to suppliers for goods and services	(9,056,235)	(601,366)	(1,063,375)	(10,720,976)
Payments to employees for services	-	-	(9,432,481)	(9,432,481)
Net cash provided (used) by operating activities	<u>31,431,840</u>	<u>(601,366)</u>	<u>(10,495,856)</u>	<u>20,334,618</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	-	-	10,581,297	10,581,297
Transfers to other funds	(4,904,446)	(4,945,851)	-	(9,850,297)
Advances (from) to other funds	<u>(5,495,418)</u>	<u>-</u>	<u>132,935</u>	<u>(5,362,483)</u>
Net cash provided (used) by noncapital financing activities	<u>(10,399,864)</u>	<u>(4,945,851)</u>	<u>10,714,232</u>	<u>(4,631,483)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition/construction of capital assets	(11,714,866)	-	-	(11,714,866)
Principal payments on bonds	-	(12,003,005)	(393,894)	(12,396,899)
Proceeds from issuance of debt	-	22,445,000	-	22,445,000
Interest payments	<u>(6,894,028)</u>	<u>-</u>	<u>(93,159)</u>	<u>(6,987,187)</u>
Net cash provided (used) by capital and related financing activities	<u>(18,608,894)</u>	<u>10,441,995</u>	<u>(487,053)</u>	<u>(8,653,952)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on short-term investments	<u>396,759</u>	<u>-</u>	<u>-</u>	<u>396,759</u>
Net cash provided by investing activities	<u>396,759</u>	<u>-</u>	<u>-</u>	<u>396,759</u>
Net increase (decrease) in cash and cash equivalents	2,819,841	4,894,778	(268,677)	7,445,942
Cash and cash equivalents—beginning	<u>29,225,914</u>	<u>40,656,107</u>	<u>411,618</u>	<u>70,293,639</u>
Cash and cash equivalents—ending	<u>\$ 32,045,755</u>	<u>\$ 45,550,885</u>	<u>\$ 142,941</u>	<u>\$ 77,739,581</u>

(continued)

**CITY OF BUFFALO, NEW YORK**  
**Combining Statement of Cash Flows—**  
**Water System**  
**Year Ended June 30, 2012**

	<u>Water Board</u>	<u>Water Authority</u>	<u>Water Enterprise</u>	<u>Total Water System</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 27,829,135	\$ (611,236)	\$(12,064,537)	\$ 15,153,362
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	4,372,760	-	-	4,372,760
Change in assets and liabilities:				
Receivables	(3,762,512)	-	(8,235)	(3,770,747)
Payables	2,992,457	9,870	(369,421)	2,632,906
Other accrued liabilities	-	-	(147,541)	(147,541)
Due to retirement systems	-	-	(19,587)	(19,587)
Accrued compensated absences	-	-	(23,443)	(23,443)
Accrued workers' compensation	-	-	229,908	229,908
Accrued other postemployment benefits	-	-	1,907,000	1,907,000
Total adjustments	<u>3,602,705</u>	<u>9,870</u>	<u>1,568,681</u>	<u>5,181,256</u>
Net cash provided (used) by operating activities	<u>\$ 31,431,840</u>	<u>\$ (601,366)</u>	<u>\$(10,495,856)</u>	<u>\$ 20,334,618</u>

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## AGENCY FUND

The Agency Fund is used to account for money and property received and held in the capacity of custodian or agent. The Agency Fund is custodial in nature and does not involve measurement of results of operations. Agency funds, such as payroll withholdings, are reported as liabilities.



**CITY OF BUFFALO, NEW YORK**  
**Statement of Changes in Assets and Liabilities**  
**Agency Fund**  
**Year Ended June 30, 2012**

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	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,409,355	\$ 9,842,220	\$ (9,577,081)	\$ 1,674,494
Total assets	<u>\$ 1,409,355</u>	<u>\$ 9,842,220</u>	<u>\$ (9,577,081)</u>	<u>\$ 1,674,494</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 258	\$ 17,915,455	\$(17,708,115)	\$ 207,598
Due to other governments	25,117	19,959	(21,493)	23,583
Amount held in custody for others:				
Surety bonds and deposits	22,751	-	-	22,751
Prisoner property	1,148,096	273,294	(236,434)	1,184,956
Fire insurance proceeds	191,145	100,113	(90,113)	201,145
Medical reimbursements	3,764	149,656	(138,077)	15,343
Miscellaneous - other	18,224	8,150	(7,256)	19,118
Total amount held in custody for others	<u>1,383,980</u>	<u>531,213</u>	<u>(471,880)</u>	<u>1,443,313</u>
Total liabilities	<u>\$ 1,409,355</u>	<u>\$ 18,466,627</u>	<u>\$(18,201,488)</u>	<u>\$ 1,674,494</u>

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# FEDERAL AWARDS



**CITY OF BUFFALO, NEW YORK**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

<u>Federal Grantor/Pass-Through Grantor/Program Title (1)</u>	<u>Federal CFDA Number (2)</u>	<u>Federal Expenditures (3)</u>
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>		
Direct Program:		
Community Development Block Grants/Technical Assistance Program	14.227	\$ 70,578
<b>TOTAL U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>		<u>70,578</u>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>		
Direct Program:		
Historic Preservation Fund Grants-in-Aid	15.904	4,130
<b>TOTAL U.S. DEPARTMENT OF THE INTERIOR</b>		<u>4,130</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>		
Passed through New York State Division of Criminal Justice Services:		
Juvenile Accountability Block Grants	16.523	12,832
Direct Program:		
Community Capacity Development Office	16.595	5,964
Public Safety Partnership and Community Policing Grants	16.710	142,000
Edward Byrne Memorial Justice Assistance Grant Programs	16.738	328,649
Recovery - Edward Byrne Memorial Justice Assistance Grant Programs	16.804	891,345
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>		<u>1,380,790</u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>		
Passed through State Department of Transportation:		
Highway Planning and Construction	20.205	6,105,631
Recovery - Highway Planning and Construction	20.205	104,545
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>		<u>6,210,176</u>
<b>FEDERAL TRANSIT ADMINISTRATION</b>		
Passed through Niagara Frontier Transportation Authority:		
Federal Transit Capital Investment Grant	20.500	1,020,089
<b>TOTAL FEDERAL TRANSIT ADMINISTRATION</b>		<u>1,020,089</u>
<b>U.S. DEPARTMENT OF ENERGY</b>		
Direct Program:		
Recovery - Energy Efficiency and Conservation Block Grant Program	81.128	357,285
<b>TOTAL U.S. DEPARTMENT OF ENERGY</b>		<u>357,285</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>		
Direct Programs:		
Assistance to Firefighters Grant	97.044	322,245
Passed through New York State Division of Homeland Security/Emergency Services:		
Homeland Security Grant Program	97.067	960,348
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>		<u>1,282,593</u>
<b>TOTAL FEDERAL ASSISTANCE (4)</b>		<u>\$ 10,325,641</u>

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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**CITY OF BUFFALO, NEW YORK**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

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**1. Basis of presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Buffalo, New York (the "City") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The following notes were identified on the schedule of expenditures of federal awards:

- (1) Includes all federal award programs of the City of Buffalo, New York. The federal expenditures of the Buffalo Board of Education (the "Board") and the City of Buffalo Urban Renewal Agency ("BURA") have not been included.
- (2) Source: Catalog of Federal Domestic Assistance.
- (3) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- (4) A reconciliation to the financial statements is available.

**2. Detail of federal highway administration (CFDA 20.205) expenditures**

Detail of 2011-2012 highway administration expenditures with their corresponding pass-through grantor numbers are as follows:

	<u>2011-12 Expenditures</u>	<u>CFDA No.</u>	<u>Pass-through Grantor Number</u>
Reconstruction of Main Street - Phase 1	\$ 255,693	20.205	D017121
Reconstruction of Main Street - Phase 2	427,913	20.205	D017948
Porter Ave.-Niagara to Amvets Drive	54,364	20.205	D017168
West Ferry Street Bridge over Black Rock Canal	121,399	20.205	D017626
Signal System Improvements - Elmwood/Chippewa	13,402	20.205	D022255
Inner Harbor and Waterfront Development	11,443	20.205	D017907
Bailey Ave. Bridge over Cazenovia Creek	108,945	20.205	D017846
Michigan Ave. Streetscape-Broadway to Goodell	9,714	20.205	D030066
Fargo D'Youville Gateway	684,693	20.205	D030118
Kenmore Ave. Reconstruction-Starin to Main St	106,517	20.205	D030039
Porter Ave. Reconstruction-Niagara St. to Symphony Circle	1,708,389	20.205	D030233
South Park Ave. Improvements	102,686	20.205	D031830
South Park Ave. Improvements-ARRA	104,545	20.205	D031830
Seneca Street Resurfacing & Streetscape Project	445,895	20.205	D033339
Safe Routes to School	24,326	20.205	D032468
Safe Routes to School - Education	40,693	20.205	D032468
Restoration of Vehicle Traffic on Main St-600 Block	264,395	20.205	D032531
Fruit Belt Redevelopment	235,514	20.205	D032782
Union Ship Canal Open Space Public Access Project	680,820	20.205	D032502
Filmore Ave. Rehab & Streetscape Enhancement	126,310	20.205	D032782
South Buffalo Paving Project	647,928	20.205	D033315
Buffalo Outer Harbor Trail Project	34,592	20.205	D033355
Total	<u>\$ 6,210,176</u>		

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Common Council  
City of Buffalo, New York:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Buffalo, New York (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 10, 2012 (which report contains an explanatory paragraph regarding a net deficit within the Solid Waste and Recycling Fund). Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Buffalo Fiscal Stability Authority, Buffalo Board of Education and City of Buffalo Urban Renewal Agency, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 10, 2012.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Common Council, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Duesch & M. L. P.

December 10, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Common Council  
City of Buffalo, New York:

**Compliance**

We have audited the compliance of City of Buffalo, New York (the "City") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Buffalo Board of Education and the Buffalo Urban Renewal Agency, which received \$107,817,329 and \$122,691,146, respectively, in federal awards which are not included in the schedule during the year ended June 30, 2012. Our audit described below, did not include the operations of the Buffalo Board of Education and the Buffalo Urban Renewal Agency because these entities engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Common Council, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Duesch & Malach LLP

December 10, 2012

**CITY OF BUFFALO, NEW YORK**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2012**

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**Part I. Summary of auditors' results**

**Financial Statements**

Type of auditor's report issued: Unqualified\*  
 \* (which report refers to other auditors and contains an explanatory paragraph regarding a net deficit within the Solid Waste and Recycling Fund)

Internal control over financial reporting:

- |  |       |       |       |               |
|--|-------|-------|-------|---------------|
| 1. Material weakness(es) identified?                     | _____ | Yes   | _____ | ✓ No          |
| 2. Significant deficiency(ies) identified?               | _____ | ✓ Yes | _____ | None reported |
| 3. Noncompliance material to financial statements noted? | _____ | Yes   | _____ | ✓ No          |

**Federal Awards**

Internal control over major programs:

- |  |       |     |       |                 |
|--|-------|-----|-------|-----------------|
| 4. Material weakness(es) identified?       | _____ | Yes | _____ | ✓ No            |
| 5. Significant deficiency(ies) identified? | _____ | Yes | _____ | ✓ None reported |

Type of auditor's report issued on compliance for major programs: Unqualified

- |   |       |     |       |      |
|---|-------|-----|-------|------|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | _____ | Yes | _____ | ✓ No |
|---|-------|-----|-------|------|

7. The City's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Edward Byrne Memorial Justice Assistance Grant	16.738
Recovery - Edward Byrne Memorial Justice Assistance Grant	16.804
Recovery - Federal Transit Capital Investment Grant	20.500
Recovery - Energy Efficiency & Conservation Block Grant Program	81.128

8. Dollar threshold used to distinguish between Type A and Type B programs? \$ 309,769

- |   |       |       |       |    |
|---|-------|-------|-------|----|
| 9. Auditee qualified as low-risk auditee? | _____ | ✓ Yes | _____ | No |
|---|-------|-------|-------|----|

## **Part II. FINANCIAL STATEMENT FINDINGS SECTION**

*We consider the deficiency presented below to be a significant deficiency in internal control:*

### **Finding 2012-1—Solid Waste and Recycling Fund Deficit**

*Criteria:* Program revenues within a business-type activity should be adequate to meet the demands of providing the services for which the fund is responsible.

*Condition:* Annual operating deficits of the Solid Waste and Recycling Fund over the last five years have caused a fiscal strain to the City's General Fund. The City's General Fund has provided significant interfund advances to provide for sufficient cash for current Solid Waste and Recycling Fund operations. At June 30, 2012, the General Fund has advanced \$14,723,456 to the Solid Waste and Recycling Fund. Due to its consistently weakening financial position, the Solid Waste and Recycling Fund's ability to repay this advance is questionable.

Over the past five years, the Solid Waste and Recycling Fund has reported operating losses. The operating expenses, on average, have increased about 5.80% per year while operating revenues have lagged behind. Operating revenues over the same period, on average, have increased by less than 1.34% per year.

*Effect:* The Solid Waste and Recycling Fund is not adequately supporting its program expenses with charges for services.

*Cause:* The Solid Waste and Recycling Fund's charges for services are not adequate to support the current level of spending within the fund. As a result, the General Fund is providing the Solid Waste and Recycling Fund with interfund loans that are bridging the gap between revenues and expenses. For the year ended June 30, 2012, the Solid Waste and Recycling Fund's operating loss was \$5,179,150.

*Recommendation:* Consistent with Section 216.58 of the City's Charter, we recommend that the City establish appropriate Solid Waste and Recycling Fund basic residential and commercial rates that will generate sufficient revenue to support program expenses within the fund.

The City should develop a formal plan to have the General Fund recover the amounts advanced to the Solid Waste and Recycling Fund. The plan would require that not only should the basic residential and commercial rates generate sufficient revenue to support program expenses within the fund, the rates should also repay the General Fund for the prior advances with interest. If the City ascertains that such a funding plan is not feasible the City should determine their responsibility of having the General Fund taxpayers, in effect, subsidizing the Solid Waste and Recycling Fund.

*Management's Response:* Management is in the process of developing a formal deficit reduction plan for the Solid Waste and Recycling Fund, which will include the evaluation of the need for rate increases.

## **Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

No items reported for the year ended June 30, 2012.

**CITY OF BUFFALO, NEW YORK**  
**Schedule of Prior Federal Award Audit Findings**  
**For the Year Ended June 30, 2012**

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**Finding 2011-2—Capitalization Policy and Procedures (CFDA 81.128)**

*Criteria:* Per OMB Circular A-133 requirements, all equipment purchases over \$5,000 should be capitalized if the purchase qualifies as a capital asset. Equipment is defined as tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

*Condition:* We identified certain equipment purchased with funds from the Energy Efficiency and Conservation Block Grant Program had not been appropriately capitalized.

*Cause:* The City is not enforcing its policy that departments notify the Comptroller's office when capital asset equipment purchases are made.

*Effect:* The City is not in compliance with OMB Circular A-133 requirements or its internal capitalization policy.

*Recommendation:* The City ensure that all the equipment purchases made are appropriately considered for capitalization.

*Management's Response:* Management reclassified all capital assets purchased with these grant funds as City assets to correct this finding. Management intends to be more thorough when reviewing expenditures made for capital assets, and communicate this to all departments it affects (Accounting, Audit, Internal Audit). Management is also considering using a system function to flag all purchases over the capitalization threshold to ensure that all capital assets are added to the Master Capital Asset Listing.

*Current Status:* The City has instructed its grant staff to monitor components of contracts for any purchases that should be capitalized and ensure the appropriate account is charged. Additionally, there were no findings within this program for the year ended June 30, 2012.

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